Brasil-UE
2º Encontro Empresarial
Desafios e oportunidades para os próximos anos

EU-Brazil
2nd Business Summit
Challenges and opportunities for the next years

Brésil-UE
2ème Sommet d'Affaires
Défis et opportunités pour les années à venir

EU Brazil Business Summit

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Joint Declaration

Summary

EU and Brazilian businesses strongly support the **EU-Brazil Strategic Partnership** as an important tool to strengthen bilateral economic relations. The business community is worried by the slow progress achieved since the initiative was launched in July, 2007. Companies make the following recommendations for the enhancing of the EU-Brazil Strategic Partnership:

- **Multilateral approaches**: Brazilian and European companies encourage government authorities of both sides to rely on cooperation and multilateral efforts to promote coordinated initiatives to stabilize financial markets and to avoid protectionist reactions in trade policy.
- **Enabling environment for investment:** In order to attract long-term investment, the EU and the Brazilian government should remove direct barriers, seek to guarantee predictability of the regulatory framework and avoid over-regulation. Tax treaties and domestic reforms should be implemented in order to reduce investment costs.
- **Infrastructure and procurement:** Companies fully support policies to increase public investment in infrastructure. The involvement of the private sector through public-private partnerships will increase the impact and efficiency of these investments.
- **Cooperation on technical regulation:** Companies encourage cooperation between European and Brazilian specialists and official agencies in the definition of technical, sanitary and phytosanitary regulations and in capacity-building and mutual recognition agreements.
- **Trade facilitation**: Trade facilitation measures would have a significant impact on the development of international trade and investment flows. The EU-Brazil Joint Action Plan should include a set of trade facilitation initiatives and identify priority measures to be implemented in the short-term.
- **Energy & Climate change:** Companies wish to play a constructive role in mitigation, adaptation and development of technologies and products to reduce greenhouse gas emissions. EU and Brazilian authorities should take part in efforts to reach a comprehensive and balanced international post-2012 climate agreement in Copenhagen and to establish standards and regulations that allow for the efficient international trade of biofuels.
- **Innovation and intellectual property rights:** Intellectual property rights (IPRs) are the foundation for innovation, which is at the core of competitiveness in today's era of globalisation. Brazil and the EU should work to improve legal protection and enforcement of IPR.

- **Trade negotiations**: Companies are preoccupied with the risk of a new wave of protectionist policies in the wake of the financial crisis. The economic crisis has generated a new urgency to conclude the Doha Round. Brazil and EU should also make their best efforts to resume bi-regional trade negotiations aiming to conclude an ambitious and comprehensive free trade agreement between Mercosur and European Union.

Introduction

CNI, BUSINESSEUROPE, CIP-AIP and MEDEF strongly support the enhancement of the Brazil-European Union Strategic Partnership as an important tool to strengthen bilateral economic relations. Brazil and the European Union share the same values regarding the importance of multilateral approaches and institutions in dealing with key issues on the current global economic agenda. The need to create a more coherent and efficient system of international financial sector regulation, while avoiding over-regulation, to conclude the Doha Round and avoid the revamping of protectionist trade policies and to reach an ambitious Post-Kyoto Agreement on climate change mitigation and adaptation are some of the challenges we face.

Business organizations and entrepreneurs are concerned by the slow progress in the implementation of the EU-Brazil Strategic Partnership, since it was launched in July 2007. In order to keep momentum and take advantage of the existing opportunities there is a need for greater delivery. The implementation of the EU-Brazil Joint Action Plan shall focus in some economic initiatives as a priority.

We recommend the creation of an EU-Brazil Working Group on Trade and Investment aiming at the identification of initiatives to foster and facilitate bilateral trade and investment flows. Furthermore, we insist on the creation of a public mechanism for monitoring the implementation of the agenda.

1. Economic Outlook

The business communities of both sides are worried by the extent to which the impact of the financial market turmoil will affect the real economy. Uncertainty about the impacts for companies and consumer markets has been increasing. Companies are also concerned about the consequences of this crisis for future policy orientations, in particular the risk of a regulatory over-reaction and a return to protectionist measures.

The business sector strongly supports the measures undertaken by governments and central banks to stabilize financial markets, and especially their growing degree of coordination. It also emphasizes the need to implement policy measures to facilitate rapid economic recovery. Governments should make real efforts to improve the quality of public expenditures and tax systems in order to encourage a sustained supply-side recovery, while keeping tight management of budget deficits.

Brazilian and European companies urge government authorities of both sides to rely on cooperation and multilateral efforts to promote coordinated initiatives to stabilize financial markets, avoid protectionist reactions in trade policy and ensure reasonable regulatory responses.

2. Enabling environment for investment

The private sector can play a crucial role in the economic recovery process by continuing to invest, produce and export. Investments in innovation, clean energy sources and infrastructure will prepare our countries for a more sustainable economic growth cycle. Governments should concentrate efforts on improving domestic regulation and creating investment-friendly environments to encourage private-sector investment. The role of governments is to re-establish the normal functioning of the markets and to adapt regulatory framework to the new context.

Recommendation: *Governments should seek to remove existing investment barriers, guarantee predictability in the regulatory framework and avoid over-regulation in order to attract long-term investment.*

The international financial turmoil has had severe impacts in the credit market. The supply of credit has diminished, provoking a surge in the costs of investment finance. The increasing uncertainty about the prospects of economic recovery, the difficulties of access to long term credit lines and the high costs of capital are paralyzing many investment initiatives planned by Brazilian and European companies. Governments should remove remaining barriers and reduce the tax burden over domestic and foreign direct investments.

Recommendation: Brazilian and European governments should seek to implement bilateral tax treaties to avoid double taxation on investment operations and to adopt domestic tax reforms that reduce the overall taxation over investment.

3. Infrastructure & procurement

Improving infrastructure is crucial for economic and social development. It is also fundamental to foster trade and investment flows in times of economic growth downturn. Investment in infrastructure and improvements in public services stimulate economic growth. In Brazil, the Program for Growth Acceleration (PAC) has been placed at the centre of the Brazilian government strategy for the economic recovery. In Europe, Public-Private Partnerships have been playing an important role in developing infrastructure.

Recommendation: Although companies welcome public investment in infrastructure, governments should stimulate the involvement of the private sector through public-private partnerships to increase the impact and efficiency of these investments.

4. Cooperation on technical regulation

The European and Brazilian economies are increasingly regulated in response to concerns about social aspects and environmental issues such as climate change. Such regulation, in addition to placing burdens on companies' competitiveness, can create negative spillovers to trade operations, impairing market access conditions. As tariffs are reduced through continuing liberalization at the WTO and elsewhere, these regulatory obstacles are gaining in importance for companies seeking to expand internationally. While companies do not object to regulation per se, they do insist that regulation be fully compliant with the spirit and the principles of the WTO.

Recommendation: *Cooperation between European and Brazilian specialists in the definition of technical, sanitary and phytosanitary regulations should be fostered.*

Barriers to mutual market access do in many ways impede the intensification of the bilateral business relations. Although the bulk of technical standards and regulations required by the EU do not constitute non-tariff barriers, the costs of complying with European standards and directives in the areas of technical and environmental norms represent, in many cases, impediments to Brazilian exports. By the same token, the majority of Brazilian regulation does not pose a problem for EU companies operating in Brazil, but some do create difficulties.

Recommendation: Brazil and European Union authorities should seek a stronger cooperation in the area of technical and environmental regulations. Cooperation should lead to the removal of unnecessary regulatory barriers to trade and investment. Part of the programme should involve training and inspection programs for Brazilian certifying entities and qualified laboratories in order to obtain recognition from European authorities.

5. Trade facilitation

Economic studies indicate that trade facilitation measures – which seek to streamline border formalities to improve the efficiency of trade transactions – can have a strong impact on the development of international trade and investment. Some of the most recent studies demonstrate the positive impact that those measures can have in reducing costs for firms operating in world markets, contributing to the development of competitive global value chains.

The goal of trade facilitation efforts should be public-private synergy, aiming to improve the competitiveness of firms and national economies. Its efficacy requires strong political will of governments and full participation of the private sector, especially in helping to prioritise the measures that have a negative impact on their cross-border operations. Trade facilitation is a complement to trade negotiations, but it could produce positive results even without the results of those negotiations.

Recommendation: The EU-Brazil Joint Action Plan should include a set of trade facilitation initiatives and identify priority measures to be implemented in 2009.

Companies are the main clients of trade facilitation measures. The private sector should be a driving force toward greater trade facilitation, helping to identify red tape, develop awareness about its costs and promote a debate about politically feasible and technically sound concrete measures.

Recommendation: The EU and Brazilian authorities should work closely with the private sector to develop solutions and improve processes that facilitate trade operations.

6. Energy & Climate Change

The consequences of global warming set challenges for all countries. The scientific message is clear: in order to limit global temperature rise to 2℃, greenhouse gas emissions must peak by 2020 and be at least halved by 2050 in comparison to 1990 levels. This means a revolution in the way the world produces and uses energy.

Recommendation: Governments and companies must rise to the climate challenge through a broad range of measures. We have to ensure that all cost-efficient climate technologies are developed and deployed.

Recommendation: National regulations should enable users to have access to energy sources which are as diversified as possible in terms of both geography and technology, and reflect the need to reduce the carbon intensity of energy supply.

In Brazil, only 8.8% of GHG emissions come from industrial activities. To a large extent this reflects the make-up of industry's energy matrix and also applies to those industrial sectors identified in the global economy as having the greatest mitigating potential. The share of renewable energies is 45%. In Europe, between 1990 and 2005 the EU energy-producing sector reduced its greenhouse gas emissions by 11% and manufacturing industry by 13%. They will further reduce their emissions by at least 21% between 2005 and 2020 through the EU emissions trading Scheme.

Recommendation: EU and Brazilian authorities should jointly seek a comprehensive and balanced international agreement, with contributions from all major economies in Copenhagen by the end of 2009.

Recommendation: EU and Brazilian authorities should work together and with other major partners to establish regulations and standards, in relation to technical and sustainability aspects, that provide an adequate framework to allow for the efficient international trade of biofuels. Standardisation and regulation should not lead to discrimination between domestically produced and imported biofuels.

Companies wish to play a constructive role in mitigation, adaptation and development of technologies to reduce emissions. One approach to involving developing countries in the combat against climate change is to combine incentives with initiatives geared to the market. Voluntary agreements, such as the Clean Development Mechanism, aligned to the possibility of obtaining carbon credits, are a suitable path for enhancing the contribution of the private sector to the challenges of mitigation.

Recommendation: The agreement, in addition to dealing with emissions reduction targets, should recognize the potential contribution of the various technologies for reducing emissions of greenhouse gases, stimulating the innovation and development of new technologies, and at the same time avoiding the creation of positive and negative lists of alternative technologies.

The role of the private sector in investments for developing new technologies is crucial. Innovation requires long-term investment To meet these challenges, the industrial sector needs regulatory and institutional environments, including intellectual property rights, that are predictable, stable and competent in allocating financial resources and facing the risks involved in investments in R&D.

Recommendation: Governments must build regulatory environments; intellectual property rights regimes; tax systems and institutions that favor the development of clean technologies: the regulatory and tax systems must send out the proper signals to guide R&D.

7. Innovation and intellectual property rights

Intellectual property rights (IPRs) are the foundation for innovation, which is at the core of competitiveness in today's era of globalisation. Strong enforcement of intellectual property rights is also a key to establishing economic incentives to deliver the energy efficient technologies of the future.

<u>Recommendation</u>: Brazil and the EU should work together to improve enforcement of existing IPRs and tackle counterfeiting and piracy. To achieve this, a structured EU-Brazil intellectual property dialogue should be created. Improvements in the Brazilian patent system would allow better utilisation of intellectual property assets. Europe also needs to put in place a comprehensive and cost-effective Europe-wide patent system. EU-Brazil IPR dialogue would also contribute to facilitating international registration of trademarks.

8. Trade Negotiations

The economic crisis has generated a new urgency to conclude the Doha Round. In times of economic turbulence, there is the risk of a new wave of protectionist policies which would worsen the impact of the crisis on our economies. Learning from the mistakes of the past, we know that we need more trade to foster world economic recovery. The business community fully supports an ambitious and balanced world trade liberalization agreement at the WTO.

<u>Recommendation</u>: EU and Brazil should join efforts to conclude negotiations on methods and modalities for trade liberalization taking the "Lamy Package" of July 2008 as a basis for the agreement.

Companies welcome governments' initiatives regarding the implementation of fiscal incentives measures to fend off major downturn forces but some of these measures may have spillover effects that undermine a level playing field in international trade.

<u>Recommendation</u>: Governments should take into consideration the compatibility with WTO regulations on subsidies when implementing domestic measures geared to support national companies.

Trade liberalization between Mercosur and European Union could give a unique contribution not only to trade and investment liberalization, but also to the setting of a business-friendly climate. Hence, for the business sector, bilateral agreements complement multilateral arrangements as they allow negotiators to go further and deeper in the removal of regulatory features that inhibit the fostering of economic relationships in partner countries.

<u>Recommendation</u>: Brazil and EU should make their best efforts to resume bi-rregional trade negotiations aiming to conclude an ambitious and comprehensive free trade agreement between Mercosur and European Union.

Lastly, Brazilian and European companies are committed to the success of the Bilateral Strategic Partnership. They wish to cooperate with authorities from both sides, offering their support and expertise in the implementation of cooperative initiatives and their experience in identifying obstacles to trade and investment. A permanent dialogue between the business European-Brazilian community and the governments will certainly be useful for the implementation of the Strategic Partnership Action Plan.