



*Delegation for relations with the Mercosur countries*

**Speech by Rui Faria da Cunha,  
Executive Director of Brazilian Business Affairs  
Brussels, 1 February 2011**

Vice-Chair of the European Parliament Delegation for relations with the Mercosur countries,  
**Nuno Melo**, MEP;

The Paraguayan Ambassador to the European Union, His Excellency **Mario Sandoval**;

Managing Director for the Americas in the European External Action Service, **Christian Leffler**;

Deputy Director-General, DG Trade, European Commission, **João Aguiar Machado**;

Director for International Affairs, Business Europe, **Adrian van den Hoven**;

**Members of the Delegation** for relations with the Mercosur countries;

**Members of the European Parliament**;

Ladies and Gentlemen,

It is a pleasure and honour to appear before this European Parliament Delegation to share with its members Brazilian industry's point of view on the state of negotiations towards the European Union-Mercosur Association Agreement.

Brazilian Business Affairs (BBA) – the voice of Brazilian industry before the European Union

BBA is the office that represents and defends Brazilian industry interests at the European Union. It was inaugurated in Brussels in June 2010 at the initiative of two Brazilian organisations:

- the Brazilian National Confederation of Industry (CNI), which was set up in 1938 and which is the umbrella organisation of the 27 industry federations in the Brazilian states and the Federal District. It represents more than a thousand employers' associations and more than 100 000 companies.

- the Brazilian Trade and Investment Promotion Agency (Apex-Brasil), which was set up in 2003, is a Brazilian government agency that provides support towards all phases of internationalisation of Brazilian companies, whilst at the same time seeking to attract foreign

investment to Brazil.

In addition to following-up the EU-Mercosur Association Agreement negotiations, the remit that Brazilian industry gave to BBA includes subjects such as energy and climate change, competition and state aid, rules of origin and the generalised system of preferences, among others.

BBA aims to bring Brazilian industry closer to the European market through dialogue and cooperation that it seeks to forge with the EU institutions and similar organisations, promoting and facilitating bilateral trade between Brazil and the European Union.

## The EU-Mercosur Association Agreement – background and new scenario

After months of expectation regarding the possible re-launch of negotiations for an association agreement between Mercosur and the European Union, Brazilian industry received the news of the resumption of negotiations between Mercosur and the European Union with a mixture of concern and satisfaction.

Negotiations to form a free trade area between the two blocs have been on the Brazilian trade policy agenda for slightly over ten years and were launched during the European Union – Latin America and Caribbean Summit Meeting in Rio de Janeiro in 1999. We were very close to concluding the agreement in 2004. Yet we were not able to overcome certain differences of opinion in key sectors on both sides. For many sectors of the Brazilian economy, an ambitious agreement could represent a significant improvement in terms of access to European markets. In addition to the natural difficulties in concluding an ambitious agreement, the economic backdrop in the two blocs has changed in recent years, which has affected their outlook on integrating the two regions.

In Mercosur, the economic crisis found us better prepared than in the past. In Brazil, for instance, due to stabilised external and fiscal accounts, we were able to take anti-cyclical measures that helped us recover growth without jeopardising economic stability.

With growing economies, price stability and flexible exchange rate policies, we need to improve conditions for access to international markets to ensure that our export growth matches the pace at which imports are rising. If not, we will once again have external account problems.

## The private sector's contribution to the negotiations

Over these years, entrepreneurs in Mercosur and the European Union have tried to influence the negotiating process at its different levels: national, regional and bi-regional.

At the bi-regional level, the *Mercosur-EU Business Forum* (MEBF) was set up ten years ago. It is a business dialogue channel that aims to promote free trade between the blocs and to enable the private sector to reach positions on negotiations for a free trade agreement. The MEBF drafts joint proposals to assist the bi-regional agreement negotiators.

The Forum has been drafting and disseminating specific recommendation on all relevant areas of the negotiations since 1999. Through this process, business representatives from both sides have been able to put aside their differences to produce joint recommendations in different areas, such as: tariff liberalisation, non-tariff barriers, special and differential treatment, rules of origin, services, investments, government procurement, to name but a few.

More recently, during the EU-Mercosur negotiation round that was held in Brussels in October 2010, BBA and BUSINESSEUROPE joined forces to promote an informal meeting between the chief negotiators and industry representatives from both blocs. This initiative will

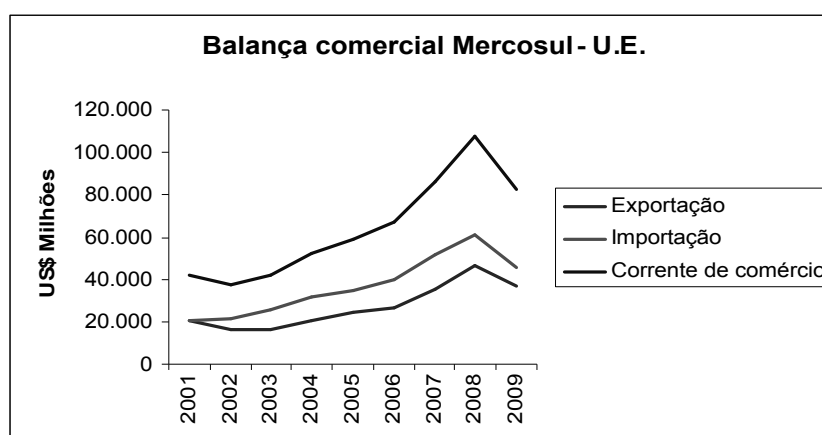
be repeated for the March 2011 round.

At the end of this event, BBA and Business Europe issued a joint press release in which they committed themselves to continuing to give constructive support to the negotiations.

Macro-economic backdrop

#### *Mercosur-EU balance of trade*

The European market is, without doubt, of major significance to Mercosur. Total trade between the two blocs registered uninterrupted growth from 2003 to 2008, when it tailed off as a result of the crisis. The balance of trade has been negative since 2002, showing that import growth has outstripped exports. The deficit reached more than 8 billion dollars in 2009.



Fonte: UNCTAD

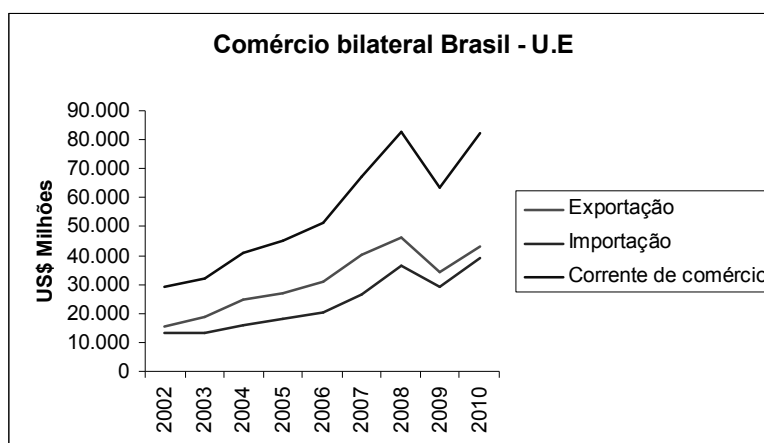
Ano	Exportação	Importação	Saldo	Corrente de comércio
1996	23.311	18.911	4.399	42.222
1997	27.078	20.105	6.973	47.183
1998	28.068	20.834	7.234	48.903
1999	24.356	19.760	4.596	44.115
2000	21.390	20.645	745	42.035
2001	20.943	20.717	226	41.660
2002	16.124	21.481	-5.357	37.605
2003	16.332	25.535	-9.204	41.867
2004	20.825	31.724	-10.899	52.550
2005	24.352	34.681	-10.329	59.033
2006	26.772	40.031	-13.259	66.803
2007	35.083	51.406	-16.323	86.489
2008	46.484	61.115	-14.630	107.599
2009	37.175	45.377	-8.201	82.552

Fonte: UNCTAD

US\$ Milhões

#### *EU-Brazil balance of trade*

More specifically as regards Brazil, the European Union is of great significance to Brazil's trade relations. In 2010 it accounted for 21.4% of total Brazilian trade (exports and imports combined), reaching roughly 82.2 billion dollars. This is 30% up on the amount of trade in 2009.



Fonte: MDIC

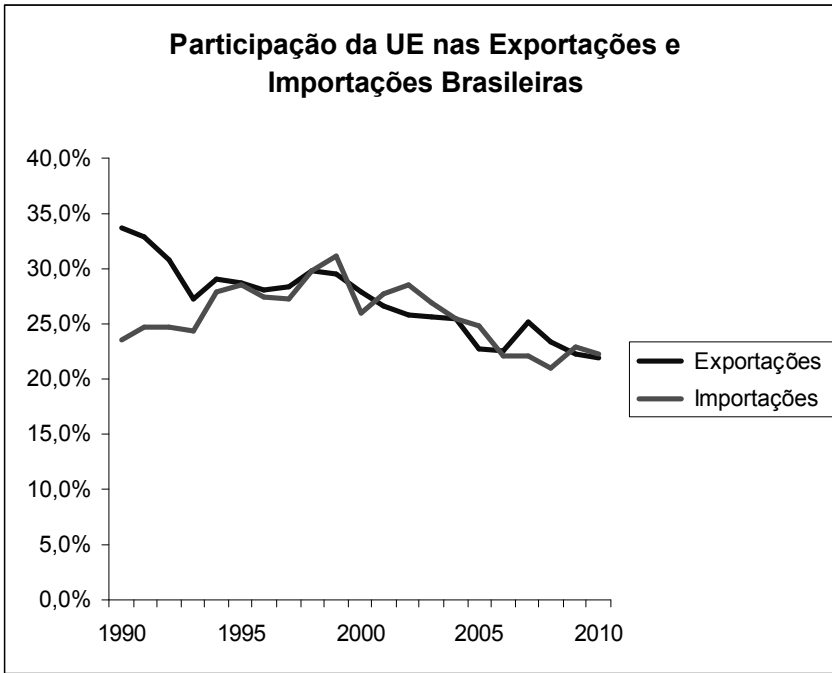
The balance of trade has remained positive at roughly US\$ 4 billion, yet down on the figures for 2009. Brazilian exports to the EU increased 26.7% on last year and imports 33.9%. This difference between growth rates has led to a worsening of the Brazilian balance of trade.

Balança comercial Brasil - U.E						
Ano	Exportação		Importação		Saldo comercial	Corrente de comércio
	US\$ FOB	Part.%	US\$ FOB	Part.%		
2002	15.609	25,83	13.496	28,57	2.113	29.105
2003	18.816	25,7	13.053	27,01	5.763	31.870
2004	24.676	25,52	15.990	25,45	8.686	40.666
2005	27.039	22,81	18.236	24,78	8.804	45.275
2006	31.045	22,53	20.203	22,12	10.842	51.248
2007	40.428	25,17	26.734	22,16	13.694	67.162
2008	46.395	23,44	36.179	20,91	10.217	82.574
2009	34.037	22,25	29.224	22,88	4.813	63.260
2010	43.135	21,93	39.121	22,24	4.013	82.256

Valores em US\$ Milhões

Fonte: MDIC

Despite growth in the amount of bilateral trade, the EU's share of business with Brazil has continued the downward trend seen in recent years. The European market share of Brazilian imports has been falling since 2000 and has only shown signs of any recovery in the last two years. The EU's market share of Brazilian exports has recorded the same trend, but at a sharper rate, with only a few recovery peaks. Its market share has fallen by more than 10 percentage points as compared to 1990.

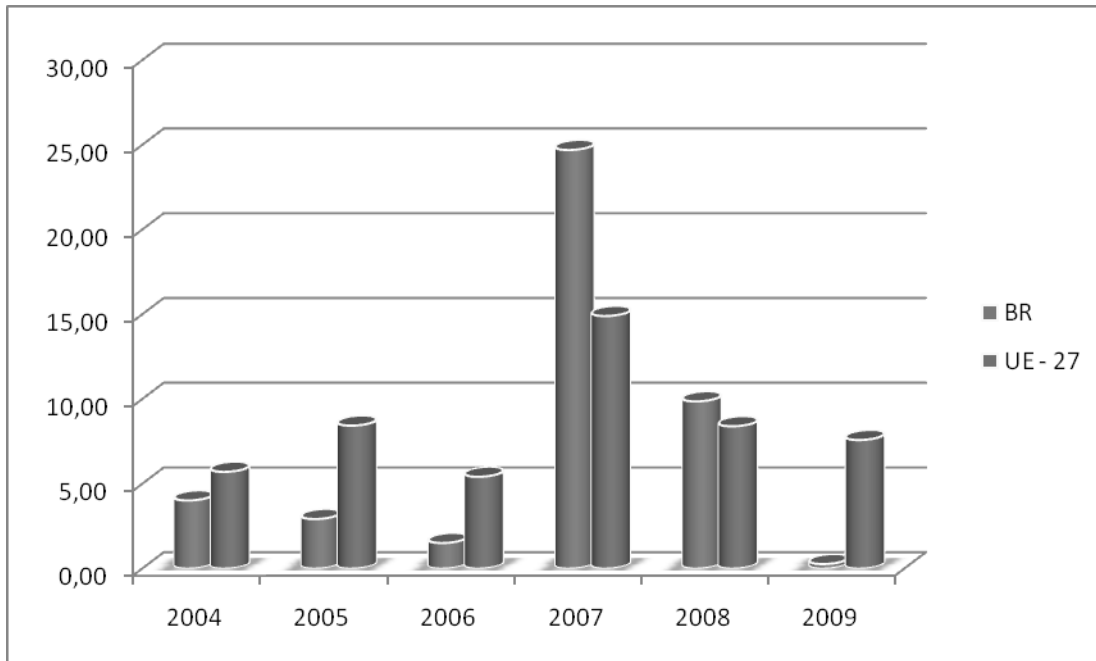


Fonte: MDIC

#### *EU-Brazil direct investment*

The European Union is the most important bloc for direct investment in Brazil. In 2009 the EU accounted for 54.2% of total investment in Brazil. Although the nominal amount for 2009 is less if compared with the previous year, the European share increased by 6.1 percentage points over this period.

In turn, the European Union will increasingly become the destination for Brazilian direct investment.



Amounts in million EUR  
Source: DG Trade

## Challenges

According to the Trade Sustainability Impact Assessment (SIA) commissioned by the European Commission, the economic impact of a free trade agreement is assessed as positive for both the EU and the Mercosur countries. The greatest beneficiaries in the EU would be the manufacturing and services sectors. We recognise that agriculture would have to face certain adjustment costs, which could be mitigated by appropriate transition periods.

An agreement guaranteeing de facto improved market access for Mercosur goods and services and predictability for business and investments will contribute towards sustaining our growth over the coming years.

For this to happen, we cannot give up better access conditions to the European market for products where we have a recognised comparative advantage, as is the case for agro-industrial products. Additionally, Mercosur has yet to implement any ambitious trade agreements with large-scale economies. This means that a bi-regional agreement will expressly represent preferential access for European exporters.

It has been commonplace to cite the agreements recently concluded by the European Union with other trading partners as a benchmark for negotiations with Mercosur. Yet we cannot compare the agreements that Europe has negotiated with other Latin American countries or South Korea. The comparative and competitive advantage structures that drive trade flows differ greatly in each of these cases. Trade agreements cannot disregard the structural characteristics of the economies involved.

It is important to point out that the resumption of negotiations while the euro crisis is worsening and when expectations are that the cooling of European economies looks set to last many years is causing apprehension in many sectors of Brazilian industry. Of more concern is the objective stated by the European authorities of concluding the agreement **within a short space of time**.

The National Confederation of Industry wrote a letter to Minister Celso Amorim in July 2010 identifying major fundamental issues regarding the current economic climate and their impact on the effects of this agreement in terms of the growth of trade flows and competitiveness in Brazilian industrial sectors, namely:

1. **Exchange rate:** in addition to the upward trend in the Brazilian currency's value, which has been observed since the middle of last year, European macroeconomic conditions have worsened considerably since May 2010, leading to a significant drop in the value of the euro. The result is that Brazilian exporters are paid a great deal less for the products they sell to the European market, while European products have gained competitiveness on the Brazilian market.
2. **Uncertainty over the future of the euro:** although the European bloc is expected to overcome the current crisis, there are major doubts at present about the future of the European currency. The outcome of this crisis may have significant impacts on business conditions in the European bloc, affecting the strategies of Brazilian companies.
3. **Diverging trends in market growth:** while the Brazilian economy is registering growth rates unprecedented in the last three decades, the European bloc economies have seen an appreciable slowdown in economic activity. Recent moves by various European countries,

unveiling across-the-board adjustment programmes making major cuts to public spending, presage a long period of reduced growth in those economies.

These diverging trends will lead to a considerably higher growth rate for Brazilian imports of European products – a trend that is already being seen – without growth possibilities for Brazilian sales to the European market.

**4. Diverging domestic policies on support for production:** while the European bloc continues to support agricultural production with high subsidies for domestic production and has adopted various programmes to stimulate industrial production since the outbreak of the economic crisis in 2008, the Brazilian Government announced an export support programme, which the majority of Brazilian entrepreneurs view as very timid. Most of the measures included in the package, which was unveiled at the end of April, have not yet been implemented. Yet the crucial problem is that the package has not settled the main issue for the export sector – what has traditionally been called ‘The cost of doing business in Brazil’ – the refund of export tax credits. This is a constitutional right of the utmost importance in terms of ensuring equal treatment as regards competition on international markets.

The deadlock on subjects such as intellectual property, government procurement, rules of origin and access to agricultural product markets may also hamper the agreement’s chances of success.

## Conclusion

Despite the challenges, at this time of restructuring on the international scene, it is of the utmost importance that the two regions – Mercosur and the European Union – bolster their partnership in the face of uncertainties such as China’s growing influence on business and investment in South America. An ambitious, balanced Free Trade Agreement is required – one that contributes towards our societies’ economic growth and well-being.

Brazilian industry supports the negotiations to form a free trade area between Mercosur and the European Union. However, it believes that the current economic climate in Europe requires caution and that any major trade liberalisation agreement must take into consideration the need to solve problems on the domestic agenda, for which Brazilian exporters continue to shoulder significant damage. It also deems it essential that the aim of concluding the agreement in the short term should not prejudice the desired results of the negotiations.