

Report of the 2003 German-Brazilian Economic Meeting

(XXX MEETING OF THE JOINT COMMISSION ON ECONOMIC CO-OPERATION AND XXI ENTREPRENEURIAL MEETING)

01.

The 2003 German-Brazilian Economic Meeting (XXX Meeting of the Joint Commission on Economic Co-operation and XXI Entrepreneurial Meeting) was held in Goiânia on October 27 and 28.

The Meeting was attended by the Brazilian Ministers of Agriculture, Livestock and Food Supply, Roberto Rodrigues; of Development, Industry and Foreign Trade, Luiz Fernando Furlan; and (acting) of Foreign Relations, Ambassador Samuel Pinheiro Guimarães; by the German Minister of Consumer Protection, Food and Agriculture, Renate Künast; by the German Vice-Minister of Economics and Labour, Ditmar Staffelt; by the President of the Confederação Nacional das Indústrias (CNI), Armando Monteiro Neto, by the President of the Bundesverband der Deutschen Industrie (BDI), Dr. Michael Rogowski, and by the Governor of the State of Goiás, Marconi Perillo. The Governor of the State of Tocantins, Marcelo Miranda, and the Senator for Economics of the City of Hamburg, Gunnar Uldall, were also present at the opening ceremony.

The German Delegation to the Joint Commission was headed by Vice-Minister Ditmar Staffelt and by the member of the Board of ThyssenKrupp, Dr. Jürgen Harnisch. The Brazilian Delegation to the Joint Commission was headed by Ambassador Samuel Pinheiro Guimarães, and by the Vice-President of CNI, Oswaldo Moreira Douat. The Agenda for the Meeting of the Joint Commission is set out in Annex I. The names of the members of both Delegations are listed in Annex II and III. The Final Report of the Entrepreneurial Meeting, with its proposals, is contained in Annex IV. The recommendations of the Entrepreneurial Meeting will be forwarded to the competent authorities of both countries for analysis and eventual follow-up.

02.

Both Delegations agreed to establish a Working Group to stimulate co-operation in the field of Agribusiness, thus hoping to diversify and enlarge the basis of the bilateral economic partnership. Attached as Annex V, the document “German-Brazilian Initiative for Co-operation on Agribusiness” lists the main participants and the scope of the Working Group. The Brazilian side pointed out the rightness of launching such an initiative in the State of Goiás, which symbolises the competitiveness and the ever-growing potential of Agribusiness in Brazil —encompassing not only agriculture itself,



but also a vast array of correlated industrial sectors, technologies and services. At the same time, it was stressed the importance of expanding the benefits of the bilateral economic partnership to other regions in Brazil (Centre-West, Northeast and North) as well as in Germany (the new Federal States). The Brazilian and German Delegations welcomed the successful conference organised in Frankfurt, in November last year, by the Working Group for Infrastructure and Energy, created on the occasion of Federal Chancellor Gerhard Schröder's visit to Brazil (February 2002) and formally installed four months later in Hamburg, during the last Meeting of the Joint Commission. Attended by the Brazilian Minister of Mining and Energy, Dilma Rousseff (then a member of the Government transition team), by Vice-Minister Ditmar Staffelt and by more than 200 private investors, the Frankfurt conference made very clear the attractiveness of infrastructure projects in Brazil. Taking into account the ongoing definition process of the regulatory and legal framework for this area, both sides agreed to extend the mandate of the Working Group on Infrastructure and Energy for three more years. Specific mention was made of the opportunities deriving from the future Brazilian law for Public-Private Partnerships (PPP).

03.

During the XXX Meeting of the Joint Commission on Economic Co-operation, Vice-Minister Staffelt and Ambassador Pinheiro Guimarães proceeded to a thorough exchange of views on the economic situation in both countries, on the results of the workshops and on the possible scenarios for the international economy after the economic developments in the last months. A comprehensive outlook of the Brazilian economy was presented, stressing its positive fundamentals and the policy guidelines of the new Government. They emphasised the importance of a common reflection upon the challenges derived from globalisation facing Brazil and Germany. They exchanged views about the lack of results of the Cancun WTO Ministerial Meeting and reiterated their Governments' commitment to relaunch negotiations with a view to ensuring a positive outcome for the Doha Round.

Brazil and Germany agreed on the need to continue to reform the current architecture of the international financial system with a view to favouring domestic efforts related to development and the fight against poverty. Both sides mentioned, in this sense, that it is highly desirable that the mechanisms of financial crises prevention and management be further improved, so as to allow for the promotion of a more stable and growth-prone international financial environment. Brazil and Germany also confirmed the need to further enhance participation of developing countries in the decision-making process of



multilateral financial institutions. Both countries raised the fruitful bilateral relations on financial and economic matters under the auspices of G-20.

04.

The two sides mentioned the important bilateral initiatives undertaken in 2002 and 2003 to strengthen the ties between Brazil and Germany, such as the visit of President Luiz Inácio Lula da Silva in January 2003 to Berlin (less than a month after his inauguration), of the visit of the Federal Chancellor Gerhard Schröder in February 2002 to Brazil and the scheduled visit of the Federal President Johannes Rau in November 2003, both accompanied by a significant business Delegation.

05.

Both Delegations stressed the importance of joint efforts to promote an intense and mutually advantageous German-Brazilian trade partnership. The Brazilian side recalled that, in the last 12 years, German exports to the Brazilian market increased more than 150%, whereas exports the other way round increased approximately 40% (since 1995, in its trade with Brazil, Germany has been benefiting from surpluses averaging approximately 1,5 billion dollars a year). The Brazilian side observed that, in the first eight months of 2003, its exports have fared considerably better due to certain products, such as poultry meat and soybeans. It added that, in the meantime, EU barriers on salted poultry, effective for Germany since August this year, will most probably nullify those gains and, thus, exemplify the impact of Brussels' protectionism in bilateral trade. The German Delegation explained that the decision has been taken by the EU in view to clarify the respective tariff regulations. It added that matter is already under review in the WTO Dispute Settlement Body which will decide in due time. The decision will be respected by the EU.

The two Delegations once more emphasised the importance of fostering free trade and creating the conditions for the further, and balanced, increase of mutual exchange of goods. It was agreed that continued improvement in market access conditions is a prerequisite for the permanent growth of the economic relationship between Brazil and Germany and the two countries should strengthen their dialogue for that matter at the WTO and the Mercosul-EU levels.



Both sides welcomed the talks between Euler Hermes, KfW IPEX, and representatives of CCEX (Comitê de Crédito às Exportações) and CFGE (Conselho do Fundo de Garantia à Exportação) aiming at co-operation in the field of export credit and export credit guarantee to support joint export projects to third markets.

06.

The Brazilian Delegation recalled that, since 1985, German participation in the total Foreign Direct Investment in Brazil has fallen from more than 25% to less than 7%. The German private investors were invited to regain the lost terrain, bringing Germany back to its former position of second largest source of FDI in Brazil. The two sides agreed that the positive outlook for German and Brazilian economies should contribute to give a new impetus to bilateral relations in this area.

Both Delegations praised the initiatives on Agribusiness and on Infrastructure and Energy, two clear efforts of the Joint Commission to stimulate investments and foster joint-ventures. These two initiatives can contribute to regain the terrain Germany has lost in the last years. The German side said that, nevertheless, new investment, especially in the field of infrastructure and energy, depend on further developments in these sectors.

Benefiting from the existing links, Brazilian and German industry could also explore the potential of common projects in third countries, specially in South America.

07.

Both Delegations referred to remaining obstacles to the import of certain German and Brazilian products, in Brazil and Europe respectively, particularly in the field of non-tariff barriers.

The Brazilian side made specific reference to European measures (including non-tariff barriers) affecting agricultural and agro-industrial products. Emphasis was given to measures affecting salted poultry (EC Resolution 1223/02).

The German side referred to the difficulties facing German exporters of pork. The sanitary authorities



of each country will analyse, as soon as possible, the propositions to solve difficulties in the bilateral trade deriving from sanitary and phytosanitary subjects, taking into account the pertinent international parameters.

Both sides underlined the importance of reaching, as soon as possible, a bi-regional Framework Agreement on sanitary and phytosanitary measures between Mercosul and the EU, with the possibility of specific agreements with each Mercosul country, in order to overcome difficulties and promote better trade flows.

The Brazilian side expressed its concern about the EU sugar regime and asked for German support in Brussels to eliminate its damaging impact on sugar exports from Brazil and other developing countries. The German side reaffirmed its commitment to a reform of the EU sugar regime, which will take into account the outcome of the pending WTO panel.

The Brazilian side expressed its concern with misappropriation of the protected name “cachaça” in some markets, including Germany. The Brazilian Delegation recalled that “cachaça” is an exclusive denomination of the spirit distilled in Brazil from sugarcane, with an alcohol grade between 38% and 48% at 20 degrees Celsius. The German side was informed that Brazilian law also protects the denomination “caipirinha”, legally defined as a beverage composed exclusively of “cachaça”, lemon and sugarcane sugar, with an alcohol grade between 15% and 36%. The German side referred to a list of protected denominations which the EU introduced into the WTO negotiations and stated that a solution should be sought in the context of these negotiations. Both sides said that bi-regional solutions could be envisaged as well.

The two Delegations welcomed the recent WTO decision on steel. The Brazilian Delegation observed that Brazil and Germany have similar interests in this domain and should keep a close dialogue in order to prevent a surge of protectionism in such an important sector.

The Brazilian side indicated it would welcome the German support for the inclusion in the future OECD agreement on steel of the possibility of developing countries to continue to grant financing to new investments at rates equivalent to those prevailing in international financial markets. The German industry asked for a favourable treatment to new investments in high-technology steel production, especially zinc-coated flat carbon steel sheets for the automotive industry.

Since the last meeting, the macro-economic conditions in Brazil have improved considerably and, as



a consequence, the general investment climate is much better. The German side suggested that a bilateral investment protection and promotion treaty would further improve the conditions for foreign investment, especially for small and medium-sized companies, and asked for rapid ratification of the negotiated bilateral investment protection and promotion treaty. The Brazilian side stated that the issue is under review. It was agreed that the subject will return to the agenda of the next meeting.

Both sides recognised the need to strengthen the Brazilian Industrial Property Office (INPI), and agreed to further discuss the creation of mechanisms of technical co-operation between the relevant authorities.

The German side also raised specific industries interests in pharmaceuticals and dialysis treatment related to market conditions (esp. price policy, reimbursement of medicaments, registration process by ANVISA and participation of foreign capital in health institutions). The Brazilian side recalled that, such as it happens in Germany, all public health decisions shall take into account the general welfare of the population.

The German side recognised the positive effect for further investment in Brazil potentially resulting from the adoption of the draft legislation on transfer pricing currently debated in Congress and encouraged the Brazilian side to join in the efforts for that purpose.

The German party reaffirmed its strong interest in the opening up of the reinsurance market. Brazil welcomed this interest and emphasised its commitment to the modernisation of the sector. The German side raised concerns with high taxation of the insurance market and double taxation (in particular, COFINS and PIS on provisions). The Brazilian side recalled that its tax system is essentially the same for national and foreign companies and does not intend to discriminate Germany, neither in a positive nor a negative way. At the same time, reminded that the current double taxation bilateral agreement is favourable to the large majority of German and Brazilian business circles. The German side asked for equal tax treatment of all foreign air-companies including Lufthansa and submitted a memorandum to this subject. The Brazilian side took note of the German interest and informed that the subject is under consideration.

Finally the German Delegation addressed the issue of non-tariff barriers in the automotive sector. In order to improve the conditions for the automotive sector in Brazil, the German business side recommend to unify technical standards and regulations in Mercosul. The German side recalled its positive



experience with regular technical inspection (TÜV) and suggested the adoption of a similar system in Brazil. The Brazilian side expressed its willingness to examine any substantiated questions submitted to it.

08.

Both sides referred to the Third Meeting of Heads of State and Government of the European Union and of Mercosul, to be held in May 2004 in Mexico in the margins of the EU-Latin America Summit, and praised the decision to give a new impetus to economic/trade negotiations and to call a meeting between negotiators at the ministerial level in Brussels on November 12. As the biggest economies within their respective integration areas, Brazil and Germany renewed their commitment to progress in the EU-Mercosul negotiations and expressed their hope that the next meeting would help to further advance the process. Both sides agreed that the conclusion of an association agreement will be determinant in stimulating trade and investment flows.

The two Delegations welcomed the significant contribution of the respective private sectors to this process through the Mercosul-EU Business Forum (MEBF), an initiative conceived at the 1997 German-Brazilian Economic Meeting. They further welcomed the fact that the 4th Plenary Conference of the MEBF will take place in Brasilia immediately after the end of the deliberations of this commission. Both business Delegations urged the parties to overcome existing difficulties in order to establish a Mercosul-EU Free Trade Area.

09.

The Brazilian Delegation briefed the German side about its policies to eliminate hunger and social exclusion. Because of its self-evident economic implications, Brazil deems this issue to be of great significance. Through social development programmes, the Brazilian Government expects to assure dignified living conditions and enhance the purchasing power of large segments of the population. The beginning of a new cycle of socio-economic development in Brazil, on an equitable and sustained basis, shall generate even more opportunities for the bilateral partnership. The Brazilian Delegation welcomed the support given so far by Germany and invited both the Government and the private sector to identify further co-operation possibilities in the fight against hunger and social exclusion.



The German side commended the Brazilian social programmes and considered them a very interesting model. The German industry draws attention to long standing and significant engagement of German companies improving social standards and living conditions. Mention was made to the financial aid announced during the recent visit to Brazil of the German Minister for Economic Co-operation and Development, Heidemarie Wiczorek-Zeul. The German side would like to deepen the discussion of the Zero Hunger project in the framework of development co-operation. The German side informed that President Johannes Rau will participate in the commemoration of 40 years of bilateral technical co-operation, which will take place in Brasília next November 27.

Both sides agreed to exchange information on food security. The Brazilian side mentioned its specific interest in family agriculture and sustainable and organic agriculture. The Working Group on Agribusiness should stimulate trade and distribution of organic products i.a. developed in this context.

10.

The results of the working groups on environment and technical research and innovation were welcomed by both sides.

The German and Brazilian Delegations agreed to proceed with the discussions, at the technical level, of a bilateral project in the framework of the Clean Development Mechanism of the Kyoto Protocol (commercialization of 100 000 Ethanol Vehicles).

The two Delegations welcomed the current visit of the German Minister for Environment, Jürgen Trittin, and acknowledged the excellent business opportunities in the field of renewable energies.

Both sides stressed the partnership of the technology transfer activities and welcome the new steps between the German-Brazilian Technology Institute and the Escola Politécnica of the University of São Paulo (USP).

The Brazilian Delegation recalled the interest of institutions in the financing of equipment and services. Specific reference was made to the State Governments of Minas Gerais, Paraíba, Sergipe and Rio Grande do Norte. The German side voiced its interest in the projects.



11.

A statistical overview of the proposals set forth in recent years showed a high percentage of achievement. Both sides expressed satisfaction with the consolidation of the mid-term meetings —the last one held in Berlin in May 2003— in order to monitor and supervise the implementation of the proposals forwarded during the German-Brazilian economic meetings.

12.

The 2004 German-Brazilian Economic Meeting is envisaged to be held in Stuttgart. Final confirmation of date and place will be conveyed through diplomatic channels.

For the Brazilian Delegation

For the German Delegation



**Encontro Econômico Brasil-Alemanha
GOIÁS GOIÂNIA 2003**