

**– Final Report –**  
**Brazil-German Economic Meeting 2006**

## **Introduction**

The 24<sup>th</sup> Brazil-Germany Economic Meeting was held in the city of Berlin, Germany, on July 10 and 11, 2006. Mr. Jürgen Thumann, President of the BDI, acted as host of the Economic Meeting, together with Mr. Osvaldo Douat, Vice-President of CNI. The headline “Partnership in a Globalized Economy” scored the debates held at the occasion. H.E. Luis Felipe Seixas Correa, Brazilian Ambassador to Germany, representing the Brazilian Ministry of External Relations, and Mr. Luis Fernando Furlan, Brazilian Minister of Development, Industry and Foreign Trade, for the Brazilian side, and Mr. Michael Glos, German Minister of Economy and Technology addressed the audience at the opening ceremony.

With the participation of Minister Luis Fernando Furlan, Roberto Rodrigues, Special Minister for the Promotion of Agribusiness, and Dr. Bernd Pfaffenbach, Vice-Minister of Economics and Technology, as well as Dr. Uriel Sharef, from Siemens AG, Dr. Jürgen Srube, from BASF AG, and Dr. Rodrigo da Rocha Loures, from the Parana State Federation of Industry (Brazil), the main Panel was conducted as an informal discussion on the perspectives of the economic cooperation between Brazil and Germany. The discussions moderated by BDI-President Thumann emphasized the mutual concern regarding the future of both economies, and the obstacles that should be overcome for both countries to follow a trend of sustainable development. It was emphasized that a reinvigorated exchange of experiences could lead to a new stage of the German-Brazilian relationship, and could contribute toward a solid partnership between the two nations.

Specific Workshops addressed the expansion of bilateral exports, investments in both Brazil and in Germany, social and environmental sustainability as well as innovation and technologies for the future. Brazilian participants reiterated their desire to see a raise in exports to Germany. Both sides emphasized their hope for new investments springing up in their respective countries, through new associations between the partners and stressed their belief that sustainable development should be considered as a prominent area for business in the next years. Brazilian speakers presented the technological breakthroughs being accomplished in their country and reiterated their trust that the German ingenuity can be of great help in preparing their plants for global competition in the future.

The sectorial meetings explored the themes of logistics and correlated services, the automotive sector, the chemical and pharmaceutical industry, and the industrial automation sector. Other sessions presented infrastructural projects currently in the pipeline in the Brazilian PPP program, debated alternative energies and energy efficiency, and discussed the corresponding financing instruments. Further meetings gave first-hand experiences with Germany as an investment location and with doing business in Brazil.

The two bilateral Initiatives, namely, the Initiative on Infrastructure and Energy, and the Agribusiness Initiative, met on Sunday, July 9, to review the work already done and explore the opportunities for cooperation in their respective spheres of action. The results of these debates were reported to authorities from both countries at the opening of the Joint Committee Meeting, on July 11.

## **Panel: Perspectives of the Economic Cooperation between Brazil and Germany**

Moderated by Mr. Jürgen Thumann, President of BDI, Minister Luis Fernando Furlan, Mr. Roberto Rodrigues, Vice-Minister Dr. Bernd Pfaffenbach, Professor Jürgen Strube, Dr. Uriel Sharef, and Mr. Rodrigo Costa da Rocha Loures shared their views on the recent economic evolutions in the two countries and expressed their belief in an upcoming new stage of the German-Brazilian relationship. The discussion addressed several issues in order to maintain both country's competitiveness in an environment of an ever more globalized world economy. Concerning the current WTO negotiations, both sides stressed that there is not much time left in order to conclude the Doha-round successfully. Both sides were encouraged to show the necessary political willingness for compromises. If the WTO round should fail, bilateral agreements could be an adequate alternative for deepening the bilateral economic relationship. Concerning the EU-Mercosur negotiations, the panelists were optimistic that the conclusion of an EU-Mercosur Free Trade Agreement is possible. Another point of discussion was the revocation of the Double Taxation Agreement. Here, the business side stressed that the governments should resume their negotiations as soon as possible. In order to cope with newly emerging markets such as China, both sides discussed the various measures in terms of competitiveness, technological development, and investment attraction. Also the possibilities of German and Brazilian cooperation in the Chinese market were considered. Another discussion round focused on specific sectors offering interesting opportunities for a closer bilateral economic cooperation. In the Agribusiness sector, the opportunity of exporting Brazilian ethanol to Germany and the capacity of Brazil for a large scale production of that commodity was highlighted. Moreover, cooperation opportunities on the production and use of an economically-viable Biodiesel, at this hour of very high oil prices, were discussed. The panelists stressed the high potential for German companies in the Brazilian infrastructure sector, with a special focus on Brazil's application for the Soccer World Cup 2014 offers huge investment and cooperation potential.

### **Workshop 1 – Expansion of Bilateral Exports.**

In the German-Brazilian economic relations, trade was still considered to be an important pillar with high growth potential. In order to use that potential, the Brazilian export promotion agency started a one-year promotion tour through Germany, presenting more than 800 Brazilian companies from 20 different sectors. With respect to the modernization of Brazilian industrial plants, German equipment was still regarded as an important export good. Regarding the export of Information Technology, Brazil was presented as an excellent alternative to Asian countries due to low costs and a highly competent and motivated staff. In this context, also the possibility of jointly trying to reach third markets was discussed. Moreover, an overview of the Brazilian automotive industry was given, a sector that responds for 14, 9 % of the GDP and is responsible for a large portion of the Brazilian trade balance. The case of a German auto parts firm that has a long-time experience in Brazil gave valuable advice for newcomers to the Brazilian market.

## **Workshop 2 – Investments in Brazil and in Germany**

Various German direct investments in Brazil were presented in this workshop. The experiences with the framework conditions and bureaucratic procedures were basically good. Low production and labor costs, modern, efficient technologies and processes and the proximity to decisive third markets were mentioned as the crucial factors that militate in favor of investing in Brazil. Especially highlighted was the non-existence of corruption during negotiations. However, improvements like tax reductions, visa facilitation and financing instruments were requested. On the other hand, the participants gained insight into a Brazilian company expanding their market share in Germany, being the most important platform to reach the European market. Chances for co-operations between German and Brazilian companies on third markets were basically considered very good.

## **Workshop 3 – Social and Environmental Sustainability**

Sustainability was presented as a promising area for German-Brazilian cooperation. The participants got the opportunity to get first-hand information about the latest ecological developments and Corporate Social Responsibility (CSR) projects in the field of organic agriculture. Moreover, projects of social and environmental sustainability, as well as projects which connect CSR with development cooperation, were presented. CSR-projects in the professional training in the Mercosur countries were additionally addressed. Another topic stressed the various tools providing that sustainability in the Amazon can go hand in hand with agribusiness, among them Clean Development Mechanism (CDM) for standing forest, forest assets exchange and voluntary certification. Another presentation introduced the idea of a so-called Sustainability Index for Renewable Primary Products, an instrument that differentiates existing biofuels and biofuels under development, and accelerates the market introduction of more sustainable biofuels.

## **Workshop 4 – Cooperation in the development of Innovation and Technologies for the Future**

It was stated that Brazil offers the biggest and best-qualified research community in Latin America disposing of over 50 000 research specialists. Among others, the most promising areas for German-Brazilian cooperation are information and communication technology, biotechnology, nanotechnology, alternative energies and energy efficiency as well as environmental technology. Apart from that, education and training of professionals, cooperation projects between companies and research organisations, as well as university partnerships was considered as an ideal basis for further cooperation. The Center of Excellence in Advanced Technology (CETA) as an example of bilateral cooperation in the technological development in Rio Grande do Sul was additionally presented. Finally, the participants had the chance to learn more about the development of off-shore capacity in informatics in Brazil.

## **Workshop 5 – Structural Projects in the PPP Projects in Brazil**

The start of the biddings for commercialising new projects in Brazil was welcomed. On the federal level, highway and railway PPP projects were presented, amounting to an app. US-\$ 860 million investment volume. The current situation of concessions in the Brazilian program for expansion of generation and transmission capacity in electrical energy was additionally addressed. On the state level, several PPP projects, such as the construction, operation and maintenance of a new ocean outfall of effluents for the city of Salvador (investment volume: US-\$ 107 million), the construction of a prison complex (i.v.: US-\$ 100 million) and the renovation and maintenance of a roadway in Minas Gerais (i.v.: US-\$ 265,4 million), and the construction of a subway line (i.v.: app. US-\$ 1,3 bn.) as well as a capacity expansion of a water treatment plant in the state of São Paulo (i. v.: US-\$ 140 million) were presented. On the other hand, German panellists gave an overview of the German experience with PPP Projects in the basic sanitation field and announced that PPP projects in Germany are also open to Brazilian participation.

## **Workshop 6 – Business Location Germany – the Land of Ideas**

The promotion initiative “Germany – Land of Ideas” was presented. It aims at promoting the world-renowned quality of Germany: its inventiveness, its economic attractiveness and its cultural diversity. By means of first-hand experiences from two foreign companies having invested in Germany, the advantages of the business location Germany were portrayed. Especially in Eastern Germany, foreign investors can make use of manifold advantages, among them the availability of qualified and cost-efficient skilled labour, an excellent infrastructure guaranteeing smooth national and international distribution, favourable political framework conditions and various financial incentives. Apart from that, the capital of Germany, Berlin, was presented as an ideal business location for high-tech companies. Another presentation showed how to promote Germany as a tourism destiny in South America. Finally, a presentation about security engineering stressed Germany’s leading position in the field of research and development.

## **Workshop 7 – Alternative Energies and Energetic Efficiency**

The panelists of this workshop stressed the importance of efficiency in the use of natural resources and overall energy efficiency. By means of an effective co-action of structural, political and market-oriented provisions, efficiency potentials can be used to an optimal extent. Simultaneously, important economic incentives can be achieved. In this context, the advantages and framework conditions for German investment in small hydroelectric plants (PCH) in Brazil were presented. The Brazilian program PROINFA, its financing possibilities offered by BNDES and the program of the federal state Minas Gerais were additionally introduced to the participants. The possible bilateral cooperation in the protection of global climate through CDM was reiterated. With regard to CDM projects, the need of a market based environment was highlighted. Moreover, bilateral arrangements or Memoranda of Understanding were not considered as a compulsory requirement of the Kyoto-Protocol or the Marrakesh-Accords, but as a helpful instrument to enhance the implementation of CDM projects. The so-called KfW Carbon fund initiated by the German government was also regarded as a good instrument to financially support companies in their CDM activities.

## **Workshop 8 – Doing Business in Brazil**

The meeting was targeted to present a practical guide for new investors wishing to start business in Brazil. Presentations were given on the search and selection of personnel, the trademark and patents protection legislation in Brazil, on important legal and tax issues, the practical logistic for imports, the practical experience for starting a company in Brazil, and incentives provided for opening new enterprises in the Northern part of the State of Paraná, Brazil. In this respect, the legal uncertainty resulting from the revocation of the German-Brazilian Double Taxation Agreement was stressed once again.

## **Workshop 9 – Existing Financing Options**

This session basically focused on the various financing possibilities in the Brazilian infrastructure sector. Today, there are various financing programs for the private sector that are particularly offered by public-sector banks. Recently, there have also been new bond based funds to make it easier for the private sector to participate in infrastructure projects. At the international level, problems can be observed with long-term financed projects. Long-term local-currency financing is not yet available in the banking sector, or if so, at exorbitant terms. An improvement of the situation can only be expected if and when the Brazilian interest-rate level approximates the international one. At present, long-term credit facilities at acceptable rates can only be extended by BNDES. Therefore, it was recommended to the Brazilian side to take measures in elaborating the respective programs. BNDES and KfW stressed their aim to improve these long-term financing conditions for infrastructure projects.

## **Sectorial Meeting 1 – Logistics and Correlated Services**

All panelists stressed the need of additional investments in the Brazilian logistics sector revealing enormous bottlenecks. These bottlenecks apply especially to Brazilian ports, waterways, railways and highways. In order to keep up with the current demand resulting from the growing domestic and foreign markets over the next years, additional investments in the logistics sector are urgently needed. By doing so, Brazil could also expand its market position in the field of perishable goods. Brazil, especially, has good prospects to profit from this market and its expected development. A general approach along the entire cooling chain should be encouraged so that future market opportunities can be optimized and market trends such as organic farming can be exploited. As a consequence, the Brazilian government initiated several programs aiming at the removal of existing bottlenecks and the expansion of the Brazilian logistic infrastructure, addressing issues like framework conditions, long-term financing instruments, and environmental topics.

## **Sectorial Meeting 2 – The Automotive Industry**

The German-Brazilian cooperation possibilities with regards to the automotive industry and the biofuel technology were explored. Biofuels were presented as a chance, as well as a challenge for the bilateral cooperation. The participants could learn about the Brazilian experience with total flex vehicles and the German experience with flex-fuel. The total flex technology, using gasoline and alcohol at an arbitrary mixture ratio, has become the prevailing technology in Brazil. 70% of the newly licensed vehicles are equipped with the total flex technology. In Germany, besides the optimization of conventional vehicle technologies and innovations in hybrid- and hydrogen technologies, the flexible fuel vehicle concept represents a promising technology, capable to combine an optimum in CO<sub>2</sub> saving with an approved technology. However, in order to implement biofuels and the respective infrastructure in Germany, it is very important to get support through incentives, e.g. the exemption of mineral oil tax. Furthermore, the potential of Bioethanol as a renewable clean fuel and the present status and developments in Biodiesel market in Germany were presented.

## **Sectorial Meeting 3 – The Chemical and Pharmaceutical Industry**

The status of the Brazilian chemical industry in the international competition field and the perspectives of the pharmaceutical industry - especially in the Biotechnology field - in the Brazilian market were examined. It was concluded that a small economic growth generated mainly by domestic demand will not increase the pharmaceutical market. There is a good opportunity for generic medicaments, although the market's expansion rate starts to slow down. It is improbable that the sector's sales volume will grow more than 15-20% until the end of the decade. The share of drugstore chains is limited in the next 5 years. However, supermarkets may come about as big competitors as wholesalers. The focus of the government will be on the access to basic medicaments. ANVISA (National Agency of Sanitary Vigilance) will continue its regulation. INPI (National Institute for Intellectual Property) shows signs of improvement at the Training Center in Intellectual Property by hiring of 440 new technical staff members. There is also a project of a new law circulating in the Brazilian Congress that aims to harmonize Brazilian and International taxation.

## **Sectorial Meeting 4 – Industrial Automation**

Due to the general need to improve productivity, industrial automation in Brazil was considered as a market with high growth potential. There are several incentives for production, export and R&D, such as tax incentives, subsidies and innovation funds. Cooperation between German automation companies and Brazilian companies, institutes or universities with expertise in booming industries may be a way of opening new markets for industry tailored automation solutions. In this context, cooperation projects already being carried out between German and Brazil in the State of Santa Catarina were additionally presented. Another presentation showed Automation Technology in infrastructure projects in the Brazilian energy sector. Also business automation has a high priority among Brazilian companies and a high growth potential. The Brazilian IT and telecommunication infrastructure, the scientific background and the competitive development costs, make Brazil an attractive location for developing business automation solutions.