

# Brazil Institute

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## TRADE AND REGIONAL INTEGRATION INITIATIVES IN THE AMERICAS

From November 28 to December 2, 2005, the Woodrow Wilson Center Brazil Project, now Brazil Institute and the Congressional Economic Leadership Institute (CELI), sponsored a U.S. congressional delegation trip to Brazil. The initiative was supported by the Inter-American Development Bank (IDB). The Brazil Information Center (BIC) provided organizational support and coordination for the trip, which marked the second in a series of exchanges between Brazilian and U.S. legislators. The delegation traveled to São Paulo, Brasília, and Rio de Janeiro to discuss issues related to the Doha Round of the World Trade Organization (WTO) negotiations, to examine bilateral relations between Brazil and the United States, to participate in a dialogue with Brazilian legislators, and to set the foundation for ongoing exchanges between U.S. and Brazilian legislators.

The congressional delegation held a series of meetings with business leaders, toured industrial and commercial facilities in key sectors of the Brazilian economy, and met with Brazilian government officials and members of the Brazilian legislature to foment a cross-country legislative dialogue. The objective of these talks was to help foster mutual understanding and build a foundation for success at the WTO Ministerial Conference in Hong Kong, which started less than two weeks later. The trip concluded with a discussion of the challenges Brazil faces in eradicating poverty, the government's programs to address inequality, and with visits to two social programs funded by the IDB designed to help people from the *favelas* (urban shantytowns) escape the cycle of poverty and enter mainstream Brazilian society. The delegation left with a better sense of the economic, political, and social realities that influence Brazil's negotiating position in the trade talks.

## MULTILATERAL TRADE NEGOTIATIONS

One objective of the delegation's visit was to examine the key issues involved in the Doha Round of multilateral trade negotiations. Brazil has emerged as a leader of the group of



## SIX MEMBERS OF CONGRESS PARTICIPATED IN THE DELEGATION:

- Phil English (R-PA), Delegation Leader; Committee on Ways and Means and Joint Economic Committee; Co-chair, Congressional Caucus on Brazil
- Michael E. Capuano (D-MA), Transportation, Infrastructure, and Financial Services Committees;
- Dennis Cardoza (D-CA), Agriculture and International Relations Committees;
- Jim Costa (D-CA) Agriculture, Resources, and Science Committees;
- Mike Honda (D-CA), Science, Transportation, and Infrastructure Committees; and
- Eddie Bernice Johnson (D-TX), Science, Transportation, and Infrastructure Committees.

20 middle-income countries (G20) in these negotiations and, at the Cancun WTO Ministerial in 2003, led the G20 in strong opposition to the position of the European Union and the United States. The delegation was intent on securing a firsthand assessment of Brazil's negotiating posture in various trade sectors.

### **Agriculture**

To examine agricultural issues, arguably the most divisive issue within the Doha Round, the delegation met with senior officials at Brazil's Mercantile and Futures exchange (BM&F), where they were briefed on market operations and safeguards. The BM&F, which trades in derivatives, exchange rates, and futures contracts for key agricultural commodities, is the world's fifth largest futures exchange.

The delegation then participated in a forum on agriculture trade issues at which Pratini de Moraes, Brazil's former agriculture minister, briefed the delegation on the status of Brazil's agricultural sector, outlook for increased production and exports, and objectives for increasing trade in agricultural goods through the Doha negotiations. Antonio Carlos de

Mendes Thame, a member of the Brazilian legislature, suggested possible ways for the United States and Brazil to reach agreement in the Doha Round. Former Ambassador to the United States Rubens Barbosa, senior officials from the BM&F, and leaders of Brazil's major agriculture companies and exporters also attended the forum.

Former Minister Pratini de Moraes explained why Brazil has joined the United States in pressing the European Union to open its market to international competition in agricultural products. In a world of free trade, Brazil sees enhanced opportunities for its exports of soybeans, sugar, ethanol, beef, and orange juice. Increased productivity in cattle raising and still unused land in Brazil could add as much as 200 million hectares in soy and other crops. He noted that open markets would allow the United States and Brazil to continue to compete for world markets in soybeans and beef, but that the United States must open its own markets for sugar and concentrated orange juice.

Already a force in world agriculture, Brazil sees enormous potential ahead. Former Minister Pratini told the delegation that he envisions the United States and Brazil as the two agricultural powers that would "feed the world." What Brazil lacks, he stressed, is adequate transportation infrastructure to bring its products to market. He also saw enormous potential for ethanol as a nonpolluting alternative to gasoline.

### **Services and Manufacturing**

The delegation visited two major commercial facilities to examine Brazil's services and manufacturing sectors. These visits included meetings with senior management at which the delegation discussed

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how Brazil's laws and policies both promote and inhibit business, as well as trade with the United States and the rest of the world. The delegation also discussed the services and manufacturing sector issues currently being negotiated at the WTO and

the importance of Brazil's flexibility regarding non-agricultural market access.

The delegation visited the campus of EDS Brazil (Electronic Data Systems), located in São Bernardo. It

**Intellectual property protection...will be ever more important to Brazil as its economy becomes increasingly sophisticated and based upon innovation and technology.**

was clear from the visit that Brazil has already entered the global competition to provide high quality, low-cost business services. In addition to serving the growing services market in Brazil, the EDS facilities are an integrated component of EDS's global services network. In this regard, EDS Brazil sees itself as a competitor with India, China, and other ambitious suppliers of business services: growth has been sufficient to hire approximately 1,000 new employees a year for the last several years.

One of the major challenges that EDS faces at its Brazil operations is to recruit and train a workforce in Brazil that is capable of meeting its performance standards. EDS officials explained to the delegation how it is overcoming the limitations of Brazil's educational system by working with local universities to help develop a computer science curriculum that will fit EDS's demands. The delegation also discussed the difficulties presented by Brazil's current tax system, which imposes high taxes on much of the equipment that EDS imports for its facilities in Brazil, as well as on the export of goods and services. EDS officials are working with other multinationals based in Brazil to provide analyses to the government on how these tax policies are a disincentive to business investment in Brazil.

The delegation also visited the main facilities of Embraer, located

in the heart of São Paulo State, and had the opportunity to examine Brazil's capabilities in advanced manufacturing. Embraer is one of four major aircraft manufacturers in the world today. Many U.S. carriers, such as American Airlines, United Express, Continental, US Airways, and Jet Blue, use Embraer aircraft.

At the Embraer facilities, the delegation analyzed WTO issues related to manufacturing and Brazilian tax policies that arguably restrict the ability of U.S. companies to supply and partner with Embraer. The delegation also discussed Embraer's recent opening of an assembly operation plant in Harbin, China, and the extent to which Embraer was allowing its Chinese partner access to advanced technology. Regarding workforce issues, Embraer briefed the delegation on how it is able to draw much of its engineering talent from the Institute for Aeronautical Technology, modeled after the Massachusetts Institute of Technology, which was established by the Brazilian government in the 1960s as a way to help build and support an aviation industry within Brazil.

### **Intellectual Property**

The delegation participated in an intellectual property (IP) forum sponsored by the American Chamber of Commerce for Brazil. Forum participants included representatives from the pharmaceutical industry and major copyright holders, such as the



CONGRESSMAN MIKE HONDA CONSULTING WITH EMBRAER OFFICIAL



CONGRESSMEN PHIL ENGLISH, DENNIS CARDOZA, AND MICHAEL CAPUANO AT THE MINISTRY OF DEVELOPMENT

software and entertainment industries. The panel discussed a broad range of concerns arising from Brazil's failure to properly establish and enforce appropriate intellectual property protections. Brazil has repeatedly threatened to break the patents of American pharmaceutical manufacturers' HIV/AIDS drugs and engage in domestic, generic production because of unaffordable prices. Brazil has also established government price controls and price freezes for patented drugs that primarily affect the pharmaceutical research and development industry.

The panel discussed the importance of intellectual property protection for both the United States and Brazil, stressing that it will be ever more important to Brazil as its economy becomes increasingly sophisticated and based upon innovation and technology. The panel also discussed how Brazil's own entertainment industry is damaged by Brazil's failure to prevent piracy and fraud and Brazil's anti-IP stance in such international forums as the World Intellectual Property Organization.

### U.S.-BRAZIL BILATERAL RELATIONS

Over the last decade, Brazil has become a more active participant in global affairs. Brazil is seeking a permanent seat on the United Nations Security Council, leads a stabilization mission in Haiti, and has emerged as a leader in the Southern Hemisphere and among emerging,

middle-income countries. The congressmen traveled to Brazil less than two weeks after President Bush's visit and meeting with Brazilian President Luiz Inácio Lula da Silva. Brazilian business and government leaders described President Bush's meeting with President Lula as positive and productive. Brazil has been both an ally and an occasional opponent of the United States in the context of the multilateral trade negotiations. Both countries cochair the negotiations for a Free Trade Area of the Americas (FTAA). Progress on an FTAA agreement is unlikely to be made until the outlines of a multilateral agreement are first hammered out. Given the recent Doha Round setback, there might not be a breakthrough in FTAA negotiations for some time.

### Meetings with Brazilian Government Officials

Following its examination of key sectors of the Brazilian economy and the issues in the Doha Round of the WTO negotiations, the delegation traveled to Brasília to meet with officials from the Brazilian government and engage in an exchange with members of the Brazilian legislature.

The delegation met with Minister of Development, Trade and Industry Luis Fernando Furlan, to discuss bilateral trade issues between the United States and Brazil. At the outset, Minister Furlan told the delegation that he saw a convergence of the U.S. and Brazilian negotiating positions on agriculture.

### CONGRESSIONAL DELEGATION OBJECTIVES:

1. To examine and discuss issues related to the Doha Round of the WTO negotiations with Brazilian government officials and legislators prior to the Hong Kong Ministerial Conference.
2. To strengthen U.S.-Brazil bilateral relations to better reflect Brazil's increasing global stature.
3. To participate in a dialogue with Brazilian legislators and set the foundation for an ongoing program of legislative exchanges between the United States and Brazil.



CONGRESSWOMAN EDDIE BERNICE JOHNSON ADDRESSING DEPUTY ALDO REBELO

Based on his most recent discussions with Brazil's Foreign Relations Minister Celso Amorim, Brazil's chief negotiator at the WTO, Furlan argued that it was a question of when – not whether – an agreement would be reached for the phaseout of export subsidies for agricultural crops. He linked agricultural trade to employment in the developing world and suggested that increased opportunities for agricultural trade might be a realistic way to stem the flow of immigrants to the industrial world.

One key point in the discussion involved the need for Brazil and the G20 countries to be more flexible with respect to manufacturing and services. The delegation suggested that, in order to make progress in the WTO negotiations, it would be important for Brazil to make clear its willingness to move in these areas. Shortly after the delegation returned to the United States, Brazil publicly announced greater negotiating flexibility in services and manufacturing.

Furlan pointed to improved laws, regulations, and enforcement when the delegation raised concern about Brazil's enforcement of laws protecting intellectual property. The delegation countered by noting that limitations on smuggling were weak – particularly along the southern border where Argentina, Brazil, and Paraguay meet. Minister Furlan reported that the government is making headway in limiting the gray market by reducing taxes and hence the incentives to smuggle certain items.

The delegation also examined Brazil's growing use of alternative fuels – particularly ethanol. Sixty percent of new cars sold in Brazil are “flex fuel vehicles” that can run on any mix of ethanol and conventional gasoline. Embraer also produces an award-winning ethanol-fueled crop-dusting aircraft. The economics of ethanol are changing in Brazil, in large part because genetic engineering has created sugar cane plants that continuously yield sugar for seven years.

The delegation then discussed concerns related to foreign investment in Brazil and suggested that a tax treaty between the United States and Brazil could be a sure way to increase foreign direct investment.

## LEGISLATIVE EXCHANGE

Another objective for the congressmen's visit to Brazil was to participate in a legislative dialogue with their Brazilian counterparts. This exchange began with an opening dinner that provided an opportunity for delegation members to meet and engage in informal discussions with Brazilian legislators. Although more than twenty legislators had confirmed their attendance, many were unable to do so because it coincided with the House of Delegates vote on an action to expel a legislator from his seat over corruption charges.

The formal program of the legislative dialogue began when the U.S. delegation met with Aldo Rebelo, the President of the Brazilian Chamber of Deputies. He formally welcomed the delegation to

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Brazil and noted how the U.S. history and struggle for independence had provided inspiration for Brazil. He told the delegation that an early martyr in Brazil's struggle for independence had a copy of the Declaration of Independence in his pocket.

Another legislative dialogue took place with the Chamber of Deputies' Committee on Foreign

## PARTICIPATING BRAZILIAN DEPUTIES:

- Aldo Rebelo - Pcdob/SP
- André Costa - PDT/RJ
- Antonio Carlos de Mendes Thame - PSDB/SP
- Antônio Carlos Pannunzio - PSDB/SP
- Aroldo Cedraz - PFL/BA
- Coubert Martins - PPS/BA
- Edson Ezequiel - PMDB/RJ
- Julio Delgado - PSB/MG
- Luiz Carlos Hauly - PSDB/PR
- Maninha - PSOL/DF
- Nelson Marquezeli - PTB/SP
- Nilson Mourão - PT/AC
- Paes Landim - PTB/PI
- Socorro Gomes - PCdoB/PA

Relations. Although not a formal session of the committee, it was authorized and conducted pursuant to a resolution adopted by the committee. The dialogue was jointly chaired by Deputy Aroldo Cedraz, Chairman of the Foreign Relations Committee, and Congressman Phil English, leader of the U.S. delegation. The legislative dialogue was also cochaired by Deputy Luiz Carlos Hauly, who had played a major role in organizing the Brazilian legislators' participation in the program, and Nilson Mourão, the Vice-Chairman of the Foreign Relations Committee.

After introductory statements, the floor was opened for discussion on a broad range of topics, which included the current state of and U.S. economic and political developments, the U.S.-Brazil bilateral relationship, and issues and concerns related to the WTO trade negotiations and other multilateral organizations and agreements. Specific issues discussed included global warming and the U.S. refusal to sign the Kyoto Protocol, the war in Iraq, the potential benefits to the United States and Brazil of increased trade, and opportunities to reduce the flow of illegal immigration from Brazil and the

rest of Latin America to the United States through increased economic growth. U.S. and Brazilian legislators also discussed Brazil's interest in encouraging the developed world to abandon agricultural subsidies, the importance to Brazil and the other G-20 countries of demonstrating their willingness to make concessions in the services and manufacturing negotiations, and the need to preserve and improve intellectual property protections in the current round of discussions. The dialogue concluded with comments from both sides regarding the value of continued communication between legislators from both nations and the mutual interest in continuing this dialogue. The Brazilians also suggested having the U.S. legislators participate in other exchanges involving legislators from elsewhere in Latin America.

The legislative dialogue concluded with a lunch hosted by the President of the House of Deputies for the U.S. Members of Congress and senior members of the Brazilian House of Deputies. In addition to trade and the economy, the delegation exchanged information on how their respective congresses dealt with legislation, oversight, and elections. The delegation and their Brazilian counterparts urged an ongoing dialogue between the two congresses.

## PROGRAMS TO ADDRESS POVERTY IN BRAZIL

The delegation concluded its visit to Brazil by traveling to Rio de Janeiro to examine issues related to poverty, and in particular the *favelas* that are home to Brazil's poorest citizens. These informal, irregular establishments built into the hillsides lack running water, sanitary sewerage, and other services and utilities, including paved road access to the rest of the city. *Favela* residents are trapped in a cycle of poverty through lack of government services, rampant crime, and the stigma of poverty itself.

The delegations toured several *favelas* to examine the progress that has been achieved through Favela-Bairro, a massive social program initiated by the Municipality of Rio de Janeiro in 1993 that has received almost \$1 billion in funding from the IDB. Rather than removing inhabitants from the *favelas* to formal housing projects, the Favela-Bairro program seeks to bring social and infrastructure services *into* the *favelas* in a manner that helps create real neighborhoods and opportunities for the residents of these communities. City officials

described the significant progress that has been made and the benefits that have been achieved for the more than 600,000 *favela* residents. In addition to basic infrastructure, this program has also provided residents with an address, an overlooked necessity that is often a prerequisite to obtaining credit and other services essential to escape from poverty.

### THOUGHTS FOR THE FUTURE

The delegation traveled to Brazil a few weeks prior to the Hong Kong Ministerial of the WTO. This timing was intended to provide the delegation an opportunity to learn firsthand about the Brazilian economy, to understand the rationale behind Brazil's pressure to end agricultural subsidies, and to deliver a strong message on the need for Brazil to show flexibility in opening its market to services and manufactures and to sharply improve its protection of intellectual property.

The delegation left with a better sense of the economic and political realities that influenced Brazil's negotiating position in the multilateral trade talks. They had a much deeper sense of Brazil's enormous agricultural potential and the possibility that ethanol may be a factor in fueling the future growth of both the United States and Brazil: two large, vibrant democracies that share common values and



CONGRESSMEN DENNIS CARDOZA, MICHAEL CAPUANO, AND JIM COSTA AT THE COMMITTEE ON FOREIGN RELATIONS

### A better understanding of Brazil's economic perspective is essential, given recent bottlenecks in Doha Round negotiations and increasing bouts over trade.

histories. The delegation had the opportunity to participate in a valuable exchange with legislators from the Brazilian Congress. Broadening and deepening these legislative exchanges will strengthen the bilateral relationship and lead to better understanding between the two countries. On May 17, Speaker of the House Aldo Rebelo traveled to Washington, DC, with Deputies Luiz Carlos Hauly and Jorge Bittar

to continue the ongoing exchange by meeting with Phil English and other U.S. congressmen.

The visit also highlighted the enormous contrasts in Brazil. On the one hand, Brazil has an agriculture sector that is a force in world markets, sophisticated 21st-century businesses, and bustling cities. On the other hand, within Brazil's cities are the sprawling favelas that are home to as much as one-fifth of the population and the country's transportation infrastructure is barely able to handle the current level of trade and commerce, much less the significant growth in economic activity that Brazil's business and government leaders say is just around the corner.

What is perhaps most evident from the delegation's visit is the importance of Brazil within South America, the hemisphere, and increasingly, the world. Having learned more about Brazil, the delegation was even more aware of how little attention Brazil receives in the American media and from policymakers within the United States. A better understanding of Brazil's economic perspective is essential, given recent bottlenecks in Doha Round negotiations and increasing bouts over trade. Brazil will be one of the global powers of the 21st century and Americans need to know more about its economy, history, politics, and culture, if the bilateral relation is to remain strong.

## BRAZIL INSTITUTE

The Brazil Institute of the Woodrow Wilson Center was created out of the conviction that Brazil and the U.S.-Brazilian relationship deserve greater attention within the Washington policy community. Brazil's population, size, and economy, as well as its unique position as a regional leader and global player, justify this attention. In keeping with the Center's mission to bridge the worlds of scholarship and policymaking, the Brazil Institute sponsors activities on a broad range of key policy issues designed to create a Brazil "presence" in Washington.

For more information about the Brazil Institute, please visit [www.wilsoncenter.org/brazil](http://www.wilsoncenter.org/brazil) or write to [brazil@wilsoncenter.org](mailto:brazil@wilsoncenter.org)

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