U.S.-BRAZIL TRADE AND INVESTMENT RELATIONSHIP: OPPORTUNITIES AND CHALLENGES

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

JUNE 12, 2013

Serial 113–TR03

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE

89–475 WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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U.S.-BRAZIL TRADE AND INVESTMENT RELATIONSHIP: OPPORTUNITIES AND CHALLENGES

WEDNESDAY, JUNE 12, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 a.m., in Room 1100, Longworth House Office Building, the Honorable Devin Nunes [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

Chairman Nunes Announces Hearing on U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges

Washington, June 5, 2013

House Ways and Means Trade Subcommittee Chairman Devin Nunes (R–CA) today announced that the Subcommittee will hold a hearing on U.S.-Brazil trade relations. The hearing will focus on the growing trade and investment relationship between the two countries, the challenges facing U.S. job creators in this vibrant and dynamic market, and how to maximize constructive bilateral engagement—including adequate parliamentary involvement and oversight—regarding these opportunities and challenges. **The hearing will take place on Wednesday, June 12, 2013, in 1100 Longworth House Office Building, beginning at 10:00 A.M.**

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:

The U.S.-Brazil trade is among our most important and promising trade relationships. Brazil has been the United States' eighth largest trading partner on average over the last five years, exceeding $59 billion in two-way trade in 2012 and generating a U.S. trade surplus of over $5.5 billion. Yet, U.S.-Brazil trade has substantial room to grow. Brazil's trade-to-GDP ratio is rising rapidly, from 16 percent a decade ago to 24 percent in 2011—but its ratio remains one of the lowest in the world. Brazil's economy is large and has strong growth potential. At over $2.4 trillion, Brazil's gross domestic product (GDP) is roughly equal to that of the United Kingdom (the world's sixth-largest economy), double that of Canada, a third larger than those of India and Russia, and one-third that of China. Brazil's economy has grown rapidly during most of the last two decades, reaching its fastest pace of growth in 2010, with annual growth exceeding 7.5 percent. GDP growth since 2011 has been slow, however.

U.S.-Brazil investment flows are also promising. U.S. foreign direct investment (FDI) flows into Brazil grew from over $5 billion in 2000 to over $12 billion in 2012, while Brazilian FDI flows into the United States grew from over $100 million in 2000 to over $1.8 billion in 2012.

Historically, the Brazilian government has not pursued bilateral trade and investment engagement, including with the United States, outside of the MERCOSUR arrangement with Argentina, Uruguay, Paraguay (temporarily suspended), and Venezuela. The current U.S. and Brazilian administrations have substantially increased bilateral dialogue, including repeated presidential-level engagement and a proliferation of lower-level bilateral dialogues involving numerous U.S. departments and Brazilian ministries. The only state visit to Washington in 2013 will be by Brazilian President Dilma Rousseff, who will visit the White House on October 23.

The U.S.-Brazil trade and investment relationship presents both opportunities and challenges. Brazil's industrial policy makes use of industrial tariff rate increases made possible by Brazil's high bound rates in the WTO, subsidized finance, and forced localization rules, including local content requirements. But there are also many encouraging commercial developments, as well as an increased willingness in Brazil to engage bilaterally on an expanded constructive trade and investment agenda.

In announcing the hearing, Trade Subcommittee Chairman Nunes said, *"Our trade and investment relationship with Brazil should be recognized as one of the United States' most important. Viewing Brazil simply as one of the BRICS underestimates its emerging leadership role in the developed world and the growing desire among its elected officials and Brazilian business for deeper integration into the global supply chain for goods and services. I look forward to exploring ways to improve the various U.S.-Brazil dialogues in order to advance our mutually beneficial relationship at this promising moment."*

FOCUS OF THE HEARING:

The hearing will explore current U.S.-Brazil trade and investment issues and analyze whether they prove ripe for inclusion in an expanded and constructive bilateral trade and investment agenda. Among the issues to be discussed are (1) deepening and expanding the long-term trade and investment relationship with Brazil; (2) the strengths and weaknesses of existing bilateral forums for engagement on trade and investment policy; (3) evaluating Brazil's industrial policy, including its high industrial tariffs, local content rules, and forced localization practices; (4) concerns regarding barriers to bilateral agricultural and ethanol trade; (5) mutually beneficial opportunities to lower barriers to U.S. services trade, especially in Brazil's large energy and infrastructure sector; (6) potential collaboration on innovation and intellectual property rights, to facilitate more high-tech trade; (7) simplification of Brazil's cumbersome border and behind-the-border regulatory measures; (8) Brazil's use of the U.S. Generalized System of Preferences, of which Brazil is the third-largest beneficiary; (9) engagement within multilateral forums such as the World Trade Organization; and (10) collaboration on third-country policies that present opportunities and challenges for both the United States and Brazil.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, June 26, 2013**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman NUNES. Welcome, everyone, to our hearing on the U.S.-Brazil Trade and Investment relationship.

I would first like to recognize the Deputy Chief of Mission at the Brazilian Embassy, Mr. Araujo. Thank you for coming, Mr. Araujo.

Last week Mr. Rangel and I met with the Brazilian Government folks from the Embassy to try to air out some of the issues on the Brazilian side as it relates to trade, and we had a very good meeting. So I would like to thank the Brazilian Embassy for being here.

The U.S. trade and investment relationship with Brazil deserves to be recognized as one of our most important. Brazil has been our eighth largest trading partner in recent years, accounting for nearly $60 billion in trade and a U.S. surplus of over $5 billion.

Since 2000, Brazilian investment in the United States and U.S. investment in Brazil have more than doubled. Brazil's economy is now the sixth largest in the world, roughly a third larger than India and Russia's, And yet the relationship still has a lot of room to grow. Brazil's trade-to-GDP ratio, for example, is among the world's lowest.

However, the ratio is increasing fast. As Brazil's middle class rapidly grows, it consumes more and helps drive increased trade flows. The drive by Brazilian businesses for global competitiveness will have the same effect.

Viewing Brazil simply through the lens of the BRICs sells the country short. It is a strong democracy and a rapidly developing regional power that is unaffected by the chronic mis-government and social pathologies that plague some of our other BRIC nations.

Our relationship also faces some challenges. For example, Brazil has ratcheted up its local content requirements, limiting the access of Brazilian businesses to U.S. goods and services that could otherwise help boost Brazil's global competitiveness. But overall, we have arrived at a promising moment to seize opportunities and resolve trade irritants by pursuing a constructive, mutually beneficial bilateral trade agenda.

Currently there are around 30 U.S.-Brazil bilateral dialogues. About half focus on trade and economics with the White House, USTR, Commerce, State, Treasury, and USDA all leading different dialogues with numerous Brazilian agencies. One of the dialogues, the CEO Forum, on which one of our witnesses, Mr. Gluski, has served, helpfully allows policy makers to tap the expertise of senior business leaders from both countries.

But the dialogues lack common branding and a common schedule, which undermines visibility. I am exploring how we can successfully elevate the U.S. Brazil relationship on the Hill by slotting these dialogues into a new, and overarching strategic economic dialogue. Congress could then more effectively provide oversight, incorporate parliamentary level engagement, and ensure accountability for results.

I plan to introduce a bill to advance that goal, and I welcome input from our witnesses.

I would like to welcome amd introduce my Ranking Member, Mr. Rangel. This is our third hearing in a row—all the witnesses were agreed to on a bipartisan basis. So we have now set a record, I think, for this Committee for the most bipartisan cooperation.

With that, Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman, and thank you for holding these hearings.

As most of you know, we have been dealing with Russia, India, China, and certainly we cannot ignore the terrific rise in international power of the great nation of Brazil and the fact that one of you has been chosen to lead the World Trade Organization, it means that we do expect that Brazil would be that closing connection between the United States and other countries in Central and South America so that, indeed, the hemisphere would be in a much better economical and political position to improve the quality of life for all of our people.

I do hope, not at this hearing, that we will be able to see how the African Brazilian population that has been able to enjoy this sharp increase in the improving economy of Brazil and what is being done educationally, as well as politically, to make certain that as in the United States we are able to incorporate all of the talents that all of our citizens have. Discrimination and poverty is a very costly commodity, and the quicker that we can overcome that in the United States and in other countries, the better it is, I think, for the entire world. And I know our witnesses agree.

So at the appropriate time I hope you can direct me to the areas that you are proudest of in the assimilation of all Brazilians into this ever shining and ever growing economic success.

And I thank you for this opportunity, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Rangel.

Our first witness is Ambassador Mack McLarty, Chairman of McLarty Associates. Mr. McLarty was White House Chief of Staff and then Ambassador-at-Large to Latin America under President Clinton.

Our second witness is Mr. Andres Gluski, who is CEO of AES Corporation and has a Ph.D. in economics. He has been serving on the Commerce Department's Bilateral CEO Forum, and is a member of the Brazil-U.S. Business Council.

Our third witness is Mr. Doug Hundt, President of Vermeer, Underground Solutions.

And we will finish with our fourth witness, Mr. Roberto Marques, Chairman of Johnson & Johnson's North American Consumer Products Business. He will testify on behalf of both J&J and the Brazil-U.S. Business Council where he serves on the board.

We welcome all of you, and we look forward to your testimony. Our time this morning is limited. So please limit your statement to five minutes, and we will limit questioning to five minutes per member in the hope of giving as many members as possible the opportunity to be recognized.

With that I now recognize Mr. McLarty for five minutes.

STATEMENT OF THOMAS F. McLARTY, III, CHAIRMAN, McLARTY ASSOCIATES

Mr. McLARTY. Chairman Nunes, distinguished Members of the Committee, thank you for hosting this very timely and important hearing on Brazil and the growing bilateral relationship between our two countries.

I have already submitted my written testimony for the record. So today I will be very brief in my comments.

As you know, Brazilian President Dilma Rousseff will be traveling to Washington in October. This will be the first state visit by a Brazilian president since President Clinton hosted President Cardoso in 1995. And after 18 years, both our countries and, indeed, the world have changed considerably.

Brazil's rise, as you appropriately noted, Mr. Chairman, together with other emerging countries and markets, such as China and India, have shifted and have altered the global dynamics. I strongly and sincerely believe the United States has much to gain from a more intensive, more focused engagement with Brazil.

With that in mind, I would like to very briefly outline four areas of strategic cooperation that I believe have real potential for mutual benefit: energy; democracy, peacekeeping and defense; China; and trade and investment.

First,energy. As you know, Brazil has discovered enormous presalt oil deposits off its coast, but deep water drilling is risky, to state the obvious. Then United States' technology and operational safety expertise could clearly be coupled with Brazilian know-how to produce meaningful results, a natural area of collaboration.

In addition, Brazil, like the United States, is rich in shale gas reserves. Mr. Chairman, as you know, a Brazilian delegation, both congressional and business delegation, recently visited the United States to learn more about our experience in this are, again, highlighting the potential for bilateral cooperation.

And lastly, thanks to this Committee's leadership in lifting the ethanol tariff, our two countries are more aggressively able to pursue business opportunities in ethanol production, as well as jointly create development opportunities in third markets.

The second area is cooperation in democracy, peacekeeping and defense in our hemisphere and beyond. Though Brazil's cultural tendency towards nonintervention can limit the depth of its cooperation on certain issues like nonproliferation, Brazil has been a steadfast partner in peacekeeping, in Haiti, in Democratic Republic of Congo, and is seeking greater influence in the world.

More broadly, Brazil is taking a strategic approach to defense cooperation and force modernization. The Defense Cooperation Agreement our Nation signed in 2010 is already helping Brazil enhance its military capabilities and helping us cement a strategic relationship with a potential global security partner.

Third, China. Both our countries have much to gain from China's rise as millions of new consumers join into the marketplace. At the same time, we are mindful of and understandably concerned about China's potential impact on domestic competitiveness. Our countries can benefit from jointly encouraging China's emergence not only as a global leader and participant, but also as a global stakeholder certainly in the area of more balanced and stable international monetary system.

Finally, trade and investment. Since 2006, goods and services exports from the United States to Brazil have more than doubled, approaching $63 billion in 2011, and in addition, the United States has long been one of the largest investors in Brazil. We have got a broad range of investment from agriculture in the plans to Embraer in Florida. This creates good jobs here in the United States, an area for further development here.

So, Mr. Chairman, for many years and for many reasons Brazil has been a secondary focus in many ways of U.S. foreign policy. Today, however, our neighbor's rising role creates an opportunity for our two nations to work together in shaping a more peaceful and prosperous future, reflecting our democratic values.

Sustained, purposeful, high level U.S. engagement and commitment will be essential to realizing the promising opportunities I have outlined here. I am encouraged by the leadership that you have shown with this hearing, and I certainly look forward to responding to and answering any questions you or your committee members may have.

Thank you.

[The prepared statement of Mr. McLarty follows:]

Thomas F. McLarty Testimony
House Subcommittee on Trade – Brazil Hearing
Ways & Means Committee
June 12, 10:00-12:00 p.m.

Introduction

Chairman Nunes, Members of the Committee – I want to thank you for hosting this hearing today on Brazil and the growing bilateral relationship.

My interest and involvement in Brazil and the Americas began a number of years before I came to Washington to serve in the Clinton administration. My older son Mark lived and worked in Brazil before attending college, and during our visits to see him, my wife and I were impressed and charmed by the country, with its natural bounty, vibrant history, rich culture, and welcoming people.

Little did I know then that I would have the opportunity to participate in forging some of our nation's key policies toward our closest neighbors, from the Mexican peso recovery package to the Caribbean Basin Initiative to Plan Colombia; or that I would have the opportunity to help shape the Summit of the Americas in 1994 in Miami – the first gathering of hemispheric leaders since 1967; or that I would represent the United States at the signing of the Guatemala peace accords that ended a 36-year civil war.

Little did I know that I would return to the region more than 50 times as President Clinton's Special Envoy for the Americas, or that I would continue traveling Pan-American highways in the private sector through my strategic advisory firm, McLarty Associates.

So it's a pleasure and privilege to share my observations with you this morning.

A Good Moment to be Focusing on Brazil

This hearing is timely, coming on the heels of Vice President Biden's trip to Brazil just over two weeks ago, and just a few months prior to President Dilma Rousseff's State Visit in October.

As you know, this will be the first State Visit for a Brazilian President since the United States hosted President Fernando Henrique Cardoso in 1995 during my tenure in the Clinton Administration; and after 18 years, both our countries—and indeed the world—have changed.

Brazil's rise, together with that of other emerging markets such as China and India, has irreversibly shifted global dynamics.

The sharpened focus on Brazil—and, more broadly, the renewed emphasis on Latin America we are witnessing during President Obama's second term—reflects the importance of Brazil's peaceful emergence on the global stage.

Without neglecting the geopolitical hotspots critical to our national security, the United States has much to gain from new and more productive engagement with Brazil. With that in mind, I want to outline four areas of strategic cooperation with real potential for win-win outcomes—by which I mean job growth and economic prosperity for all our citizens: energy; democracy, peacekeeping and defense; China; and trade and investment.

Energy

First, energy.

The enthusiasm surrounding Brazil's discovery of enormous pre-salt oil deposits off its coast has been tempered by the acknowledgement that deep-water drilling remains a difficult and risky endeavor. The United States' significant technological and operational safety expertise could be coupled with Brazilian know-how to produce meaningful results. Chevron and Exxon Mobil participated in the 11^{th} oil and gas bidding round conducted by the Brazilian authorities in May; but more can be done to further our technical and commercial cooperation in deep-water exploration and production.

In addition, Brazil—like the United States—is rich in shale gas reserves. Mirroring the U.S. experience, Brazil is presently struggling to enact effective regulatory regimes that balance environmental concerns with the potential of this energy resource. As Chairman Nunes is aware, a Brazilian congressional and business delegation recently visited the U.S. to learn about the U.S. experience, highlighting the potential for deeper bilateral collaboration in this area.

Lastly, and thanks in part to this Committee's leadership in lifting the ethanol tariff, our two countries can more aggressively pursue business opportunities in ethanol production, as well as jointly create development opportunities for production in third markets such as Africa or Central America and the Caribbean, where the United States and Brazil have a shared legacy and mutual desire to support human and economic development.

Democracy, Peacekeeping and Defense

The second area ripe for cooperation is democracy, peacekeeping and defense.

Though Brazil's cultural tendency towards non-intervention can limit the depth of our cooperation on issues such as non-proliferation, Brazil has been a steadfast peacekeeping partner in places like Haiti and the Democratic Republic of the Congo, and is seeking to increase its influence in the developing world. Brazil's Jungle Warfare Instruction Center has become an elite training center for special operations forces for African and even French and American soldiers, reflecting Brazil's desire to raise its military profile abroad.

Brazil recognizes that its newfound prominence requires a more strategic approach to defense cooperation and force modernization. To this end, in 2010, the United States and Brazil signed a Defense Cooperation Agreement to exchange defense and operational expertise. Beyond the commercial benefits, the agreement is helping Brazil enhance its military capabilities; and from the U.S. perspective, we are cementing a strategic relationship with the most culturally and politically compatible of the BRIC emerging markets—an anchor of regional stability, and a potential partner on global security issues.

While Brazil is not likely to publicly press countries over their internal political processes—as recently demonstrated by its handling of Venezuela's recent presidential election—Brazil's recognition of its role as a global leader has it focused as never before on regional stability, particularly in South America. In a shift from even a decade ago, the Brazilian government is more actively engaging in commercial diplomacy and pressing for the rule of law in countries like Ecuador and Bolivia. This trend is almost certainly correlated with the increasing presence of Brazilian multinational companies invested in the region.

China

The third area for enhanced cooperation concerns China.

Both Brazil and the United States have much to gain from China's rise, as millions of new consumers enter the marketplace, offering an opportunity for companies to fill gaps that meet local needs. Brazil also serves a model for much of the developing world as it undergoes the successful integration of more than 20 million people into its middle class. My family's fourth-generation automotive enterprise has dealerships in both Brazil and China, and I can testify to the economic transformation and vast potential for business in these markets.

At the same time, both the United States and Brazil fear what China's rise might mean for domestic competitiveness. The United States has much to gain from collaborating with Brazil on approaches to China that encourage the emergence of China not only as a global giant, but also as a global stakeholder. For example, encouraging China's active participation in ensuring a more balanced and stable international monetary system.

Trade and Investment

The last area of mutual potential benefit that I want to highlight is trade and investment.

Since 2006, goods and services exports from the United States to Brazil have more than doubled, from $26.6 billion in 2006 to $62.7 billion in 2011. In addition, the United States has long been one of the largest investors in Brazil.

Increasingly, however, we are seeing Brazilian firms in sectors from agriculture to steel expanding aggressively throughout the United States. USTR reports that Brazil FDI in the United States was $5 billion in 2011, up 266 percent from 2010. Portuguese is now spoken in the Great Plains, with JBS investments in Colorado, Minnesota, Nebraska and Iowa. Embraer's two plants in Jacksonville and Melbourne, Florida, will produce many of the 30 regional jets recently purchased by United Airlines, creating high-skilled jobs in those communities. Investments like these give Brazil an unprecedented stake in the U.S. economy. We should encourage the U.S. and Brazilian government to involve more closely the private sector in both countries in strategic and commercial dialogues.

The United States and Brazil also have much to gain from multilateral liberalization in agricultural trade. The WTO Doha Development Round collapsed in part because of a failure to address agricultural subsidies and domestic supports in a significant way, as well as emerging markets' reluctance to liberalize trade industrial products and services. As the United States pursues our current ambitious trade agenda in Asia and Europe, we should bear in mind that Brazil could help to bridge the longstanding North-South disputes that have stalled Doha's conclusion, even more so with a Brazilian leading the WTO. While bilateral trade and investment flows are robust, both countries are leaving money on the table by failing to deepen what could be an even more vigorous and expansive economic relationship.

Conclusion

Mr. Chairman, for many years and for many reasons, Brazil has been a secondary focus for U.S. foreign policy. Today, however, our neighbor's rising role, not just regionally but globally, creates an opportunity for our two nations to work together in shaping a future for the global community that reflects our democratic values and beliefs.

With the momentum created by the upcoming State Visit, and building on the spectacular tenure and professionalism of our departing U.S. Ambassador to Brazil, Tom Shannon, the moment is ripe and the stage is set for seizing that opportunity now.

High-level U.S. engagement and commitment will be essential to realize the promising opportunities I've outlined here. I am encouraged by the leadership you have shown with this hearing, and I look forward to answering any questions you may have.

Thank you.

Chairman NUNES. Thank you, Mr. McLarty.

Mr. Gluski, you are now recognized for five minutes.

STATEMENT OF MR. ANDRES R. GLUSKI, CHIEF EXECUTIVE OFFICER, AES CORPORATION

Mr. GLUSKI. Thank you very much, Chairman Nunes, Congressman Rangel, and Members of the Committee.

It is an honor to be here today to assist in any way I can to better U.S.-Brazilian relations and understanding.

I am the CEO and President of the AES Corporation, a Fortune 200 company headquartered in Arlington, Virginia. We own and operate electric generation plants and electric distribution companies in 25 countries, including Brazil, where we serve about 6.5 million customers in the City of Sao Paulo, and another 1.2 million customers in Rio Grande do Sul. In addition, we operate 3.3 gigawatts of hydro and thermal generation capacity in the country.

As Brazil is one of our most important businesses, I am a member of the U.S.-Brazil CEO Forum. I am also a member of the Business Roundtable and one of the Directors of the Council of the Americas.

When speaking of U.S.-Brazil trade relations, there is much we can do to increase trade and investment between the two largest economies in the Americas. Brazil's economic policy differs from the U.S. in having a more prominent role for the central government. It is for this reason that the National Development Bank, BNDES, has played an instrumental role in the execution of Brazil's industrial policy.

In this regard, they have actively financed various sectors of the economy, lending more money last year than the World Bank and Inter-American Development Bank combined.

However, the private sector still plays the key role in domestic capital markets. Sao Paulo's stock exchange, the Bovespa, is one of the largest stock exchanges in the world by capitalization.

Brazil is not only a destination for U.S. investments. It is also a source of capital for partnerships and even a source of direct foreign investment in the U.S.

AES' two largest companies in Brazil, AES Tiete and AES Electropaulo, are listed on the Bovespa, and we are controlling partners together with BNDES in both. It is important that the U.S. tax policy recognizes the new realities of the growth of emerging capital markets and does not discriminate against investment in controlled companies that are locally listed versus private partnerships.

A bilateral taxation treaty between the two countries would further incentivize investments in both countries.

Today there are tremendous complementarities between the two economies. Brazil is in the midst of an offshore oil boom which will require U.S. technology services and investment. The country is also fortunate to have substantial shale gas deposits, an area where U.S. companies possess a clear competitive advantage.

While certain property ownership issues must be resolved in Brazil, U.S. companies should be prepared to participate.

Another area for collaboration is the use of Brazil's strength as a bioethanol producer, both to increase the availability of ethanol products in the U.S. and to establish a dependable base for U.S. bioengineering technologies.

There are many good examples of successful binational cooperation. Embraer is a world leader in the production of regional jets and relies on U.S.-made avionics and turbines. AES has also become one of the leaders in the Brazilian electricity sector and recently spun off a $1 billion telecommunications company that it built from the ground up in Rio de Janeiro and Sao Paulo.

GE currently produces electric components in Brazil, including wind turbines, to comply with high domestic content requirements. High domestic content requirements admittedly increase the cost of doing business in Brazil, but it is a national policy aimed at increasing domestic value-add.

Brazil and the U.S. share many common values which facilitate strong ties. In Brazil AES helped normalize electricity service and brought the benefits of electricity to two and a half million people in the shanty towns or favelas of Sao Paulo and the rural areas of Rio Grande do Sul. Together with USAID, another two million people will benefit from improved electrical service in Sao Paulo.

Public-private partnerships can work. As the first private company to partner with the Millennium Challenge Corporation established by Congress in 2004, AES brought electricity to more than 180,000 people in El Salvador in only three years.

We thank you for your support in helping us make a difference.

[The prepared statement of Mr. Gluski follows:]

TESTIMONY OF ANDRES GLUSKI, PRESIDENT AND CEO OF THE AES CORPORATION
BEFORE THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE

Chairman Nunes and distinguished Members of the Subcommittee, my name is Andrés Gluski. I am the President and Chief Executive Officer of The AES Corporation (NYSE: AES), a Fortune 200 company managing electric sector companies in many countries around the world. I am also one of the 10 U.S. members of the 2011–2013 U.S.–Brazil CEO Forum as Brazil is one of the key markets for AES. We have enjoyed a positive working relationship with the Brazilian government and we are committed to growing our business in the country. Thank you for inviting me to testify before the Subcommittee on the important topic of the trade relationship between the United States and Brazil.

AES and Its Brazilian Operations

AES is a global power company that owns and operates a diverse and growing portfolio of electricity generation and distribution businesses. We employ approximately 25,000 people globally, and safely provide reliable and affordable energy to customers in 25 countries. Our power plants use a broad range of technologies and fuel sources, including coal, diesel, hydropower, gas, oil, wind and biomass, and our utilities power several diverse markets, from São Paulo, Brazil to Indianapolis, Indiana. AES has a proven commitment to operational excellence in the generation and distribution of electricity to its customers. We combine our more than 30 years of experience in the field with deep local insight to provide safe and sustainable energy to improve people's lives in the markets we serve. Our success in managing a diverse fleet of energy assets across the world sustains hundreds of direct and indirect high quality finance and technical jobs at our headquarters in Arlington, Virginia.

AES has maintained an important presence in Brazil since 1997. We have invested more than $6.9 billion in the Brazilian energy sector. We hold a significant amount of our electricity generation and distribution assets in partnership with the Brazilian National Development Bank (BNDES), although AES has a controlling interest in those companies and operates them. AES Brazil is headquartered in São Paulo and currently employs more than 6,000 people. We are one of the largest electricity groups in Brazil, operating more than 3,300 MW of generation capacity and serving 7.7 million distribution customers. We control and operate two companies listed in the Sao Paulo Stock Exchange (Bovespa), Tiete and Eletropaulo, with a current combined market cap of $5 billion.

The U.S. – Brazil CEO Forum

I am honored to participate in the U.S.–Brazil CEO Forum ("the Forum"). The Forum was created in 2007 by the United States and Brazilian governments and is comprised of private and public sector representatives from both countries.

In the United States, the Forum is chaired by the U.S. Secretary of Commerce and the Deputy Assistant to the President and Deputy National Security Adviser for International Economic Affairs. In Brazil, the Forum is chaired by the President's Chief of Staff, and the Brazilian Minister of Development, Industry and Foreign Trade.

Over the past two years, the Forum's efforts have focused on improving cooperation related to issues in the areas of trade and investment, and education and innovation. We have also concentrated on the aviation, infrastructure and energy sectors.

Opportunities in the Energy Sector

At AES, we see tremendous potential for the U.S. and Brazil to cooperate in the energy sector, and we have engaged in discussions at the Forum on several key topics within the energy industry.

Development of the shale gas resource in Brazil could become a significant contributor to growth in the Brazilian economy. The Brazilian Oil Agency, ANP, originally estimated that Brazil has 32 trillion cubic feet of natural gas reserves. Those estimates have more recently been raised significantly. They now believe five basins in the country contain potential reserves of up to 500 trillion cubic feet of shale gas. This estimate is 88 percent higher than the U.S. Energy Information Administration's estimates that Brazil has 226 trillion cubic feet of gas held in shale. With either estimate, however, the potential for gas production is significant. Brazil may offer exploration blocks that contain deposits of shale gas in these five separate basins in an auction planned for December 2013.

There is significant potential for further collaboration between the U.S. and Brazil in developing these potential shale gas reserves. To foster successful collaboration and to ensure the appropriate development of these resources, attention is needed to enhance the natural gas infrastructure in Brazil, to secure enough skilled professionals to work in the industry, and to establish appropriate incentives for property owners. I'll briefly examine each of those issues.

<u>Enhancing Natural Gas Infrastructure</u>
In the U.S., shale gas is fundamentally changing the country's energy outlook, providing a new source of low-cost natural gas for domestic consumption and exports. The U.S.–Brazil CEO Forum believes Brazil would also benefit from growing its natural gas usage to diversify and increase the reliability of the country's energy supply while stimulating other sectors of the Brazilian economy. Natural gas is also cheaper than other hydrocarbons and has lower $CO2$ emissions.

To fully leverage its available natural gas resources, Brazil should support new investment in the development of gas transportation infrastructure. A well-organized gas transportation infrastructure will allow natural gas to be utilized widely across Brazil's vast territory.

<u>Securing Skilled Professionals</u>
To develop a vibrant natural gas industry, Brazil will need skilled labor to build the supporting infrastructure. In the U.S., there is uniquely skilled labor in this sector which could be leveraged to

assist in efforts to further develop this industry in Brazil. If Brazil were to establish a formal Visa Waiver Program for skilled professionals, these workers could be more readily available.

For Brazil to develop its next generation of skilled labor, the nation needs policies to sponsor additional education in science, technology, engineering and math. Moreover, programs to promote internships within the private sector will also help develop the next generation of skilled labor.

The private sector can collaborate with both governments to drive education and innovation, increase job opportunities, promote economic growth and help reduce poverty.

Establishing Incentives for Property Owners

In developing natural resources, it is helpful to provide incentives to property owners for them to be able to participate in the benefits of utilizing these resources. In the United States, underlying shale gas is the property of the landowner, creating a financial incentive for private owners to allow shale gas operations and their associated disruptions to occur on their land.

In Brazil, the Federal Union generally owns the gas, not the landowner. Brazil will need to develop mechanisms to compensate and incentivize landowners to cooperate with natural resource development on their lands if the potential for the natural gas industry in Brazil is to be realized.

Sugar Based Ethanol

A closely related area where there can be significant complementarity between the U.S. and Brazil is in the area of bio-ethanol products. Brazil is the largest producer of sugar based bio-ethanol in the world, representing around 40% of its domestic fuel demand in 2012. The U.S. could benefit by loosening barriers to the import of lower cost bio-ethanol from Brazil while U.S. companies which lead in the material science discipline could benefit from favorable treatment in Brazil that would allow them access to ample supplies of economic raw materials which are not always available in North America.

Liberalizing Local Content Rules

The challenges and the opportunities that the energy sector offers to Brazil will require the cooperation of many countries to support further development. The United States is well-positioned to provide know-how in the development of oil and gas infrastructure at competitive costs, provided there is a level playing field where U.S. companies are held to the same rules applied to their Brazilian competitors.

Brazil has some of the most demanding local content laws in the world. Awarded contracts require that activities in the oil exploration phase use between 37 and 85 percent local goods and services. In the development phase, the requirement is between 55 and 80 percent.

State-owned Petrobras recently requested that regulators relax strict requirements on local content laws. Petrobras asked for these changes to be included in the next bidding rounds for new oil and gas exploration concessions in 2013. These changes will help continue development of the sector in Brazil. In addition, promoting partnerships with U.S. companies in this area, along with access to competitive Brazilian financing for U.S. investors, could significantly advance the agenda in the sector.

These local content rules are not only an issue in the energy sector, but also present challenges in other sectors as well.

Increasing Role of Local Capital Markets

The Brazilian National Development Bank (BNDES or "the Bank") plays a critical role in Brazil's current economic growth and development. The country has an agenda for the completion of significant infrastructure projects under the Growth Acceleration Program, in addition to construction of infrastructure and facilities for the 2014 FIFA World Cup and the 2016 Olympics. The Bank is the leading long-term provider of financial support for key strategic sectors in Brazil.

The Bank offers several financial support mechanisms to Brazilian companies of all sizes, as well as public administration entities in Brazil. The Bank has grown to become the largest development bank in Latin America and the second largest development bank in the world. Only the China Development Bank is larger. In 2010, the Bank had a loan portfolio three times larger than that of the World Bank and in 2012 lent more money than the World Bank and the Inter-American Development Bank combined.

The Bank supports the creation of national champions in key sectors of the Brazilian economy, such as aviation, commodities, oil and gas, poultry, meatpacking and others. This support has created Brazilian global players in different sectors of the economy that are capable of competing outside of Brazil. These companies include Petrobras, Vale, JBS and Embraer, the world's third largest aircraft manufacturer and a Brazilian member of the U.S.–Brazil CEO Forum. These companies are executing an internationalization program focused on extending their presence to become global players. They have attracted investors in local and international capital markets. Embraer's aviation business exemplifies the potential for complementarities between the two countries as Embraer's planes are manufactured in Brazil, while much of the avionics and many of the turbines are made in the United States.

Globalization and the demand for goods and services from developed markets have increased the attractiveness of local capital markets. More and more of these companies are able to raise funds in Brazil, attracting a diverse source of investors. Brazil's Securities, Commodities & Futures Exchange ranks among the world's leading exchanges by market capitalization and second in the Americas with a market capitalization for 365 companies of more than $1.22 trillion as of April 2013.

Brazilian players have been in the headlines for large transactions in many parts of the world. Recently, Jorge Paulo Lemann , a Brazilian investor with a controlling stake in Anheuser-Busch InBev, the world's largest beer company, together with his longtime partners Marcel Telles and Carlos Sicupira, made headlines, when their investment firm, 3G Capital, partnered with Warren Buffett in a $28 billion takeover of the U.S. consumer giant Heinz.

The potential is well demonstrated for the development of a deep and sophisticated capital market in Brazil. This potential must be realized if Brazil's true economic potential is to be realized.

Creating U.S. Job Opportunities

The U.S. has the opportunity to create jobs both through investment in Brazil and by encouraging Brazilian investments in the U.S. We see large U.S. corporations committing to develop facilities in Brazil. Automobile manufacturers and large conglomerates such as General Electric are good examples of entities bringing competitive U.S. technology and know-how to Brazil, and at the same time increasing value for U.S. companies in their supply chains.

As an example, the GE technology center located in Rio de Janeiro develops wind turbines specifically designed for the intensity and height of Brazilian winds. This GE activity can also help bring U.S. components from other companies to Brazil as part of GE's supply chain. This approach generates jobs in the U.S., both in management of overseas assets as well as the manufacturing jobs created when U.S. components are purchased.

The U.S. and Brazil could also benefit from encouraging Brazilian investment in the U.S. infrastructure sector. Brazil has developed strong engineering and construction companies that are competing in the U.S., Latin America and Africa. The U.S. is second only to China in public ownership of its infrastructure. A widespread infrastructure privatization program promoting privatization of toll roads, highways, bridges, and ports, could represent a huge opportunity to attract Brazilian and other global investors to the U.S. infrastructure sector. Through this effort, we will be able to improve and modernize U.S. infrastructure without increasing the fiscal deficit, while also creating jobs in the construction and infrastructure sectors that could help the U.S. continue reactivating its economy. This program could benefit significantly from the work already performed by the Infrastructure committee at the U.S.–Brazil CEO Forum. The committee has already prepared documents explaining the Brazilian government's procurement policies for contracting infrastructure projects as well as detailing examples from the U.S. on a variety of public works and infrastructure contracts.

Corporate Tax Structure Improvements

Accelerating economic growth and cross-border investment between the U.S. and Brazil also requires tax certainty and tax incentives which seek to promote the domestic growth agendas of each nation. These objectives may be accomplished primarily by advancing long ongoing negotiations in support of a Bilateral Tax Treaty between the U.S. and Brazil. In the longer term, U.S. Tax Reform is needed to simplify the treatment of foreign earnings for U.S. based corporations while providing a level playing field with multi-nationals based in other jurisdictions, particularly in Europe and Asia.

Building on the success of the recently approved U.S./Brazil Tax Information Exchange Agreement, we support the re-initiation of negotiations on the terms of a Bilateral Tax Treaty to reduce or eliminate double taxation and provide economic incentives to stimulate cross border investment and job creation opportunities. Such incentives, including reduced rates of withholding tax on interest, dividends, royalties, and payments for technical services would be mutually beneficial to both U.S. and Brazilian investors and would improve overall investment efficiency between the two nations.

We also support comprehensive tax reform in the U.S. that seeks to simplify and modernize the corporate tax system by introducing a competitive territorial tax system that eliminates the current disadvantage U.S. companies face relative to their foreign competitors. In an era of extraordinary capital mobility, tax reform provides an opportunity to make U.S. multi-nationals more competitive on a global scale and the U.S. a more attractive investment locale. These changes would spur job creation and domestic economic growth by encouraging U.S. companies to repatriate cash to the United States.

Investment firms such as AES require certainty over the U.S. taxation of foreign earnings which are actively managed. A leader in this field, AES has successfully tapped into local capital markets for more than a decade to raise equity in support of its business growth objectives through its controlled foreign corporations and seeks certainty that income derived from these actively managed equity market investments will continue to benefit from U.S. tax deferral, consistent with the U.S. tax treatment of investments structured through private party ventures. To state it simply, with growing local capital markets, it does not make economic sense to discriminate in any way from a tax perspective between those companies using publicly listed controlled foreign corporations to raise capital abroad versus private partnerships or private joint ventures. The former help better integrate U.S. companies into the national fabric of the countries where they operate while providing greater transparency and governance.

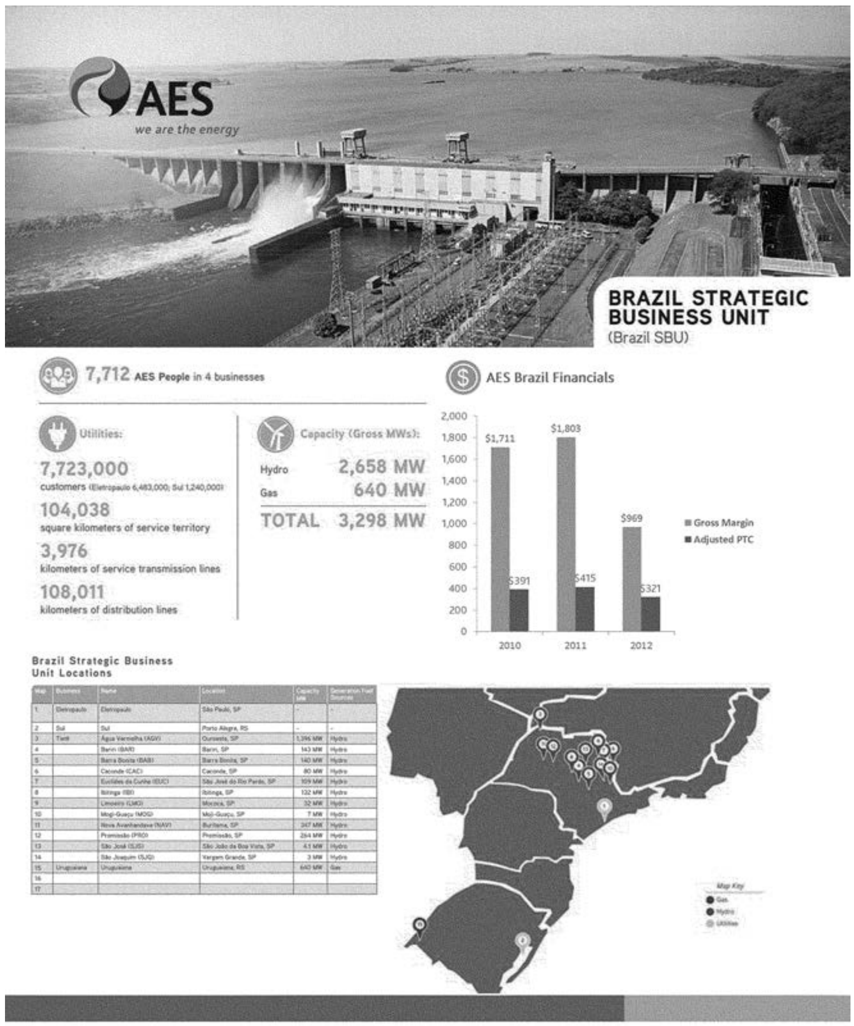
Trade Agreements

In addition to the specific policy issues already identified, both governments should be encouraged to reach a long-term trade and investment liberalization framework. Brazil and the U.S. both supported the Doha negotiations; however, a positive outcome currently seems distant. Due to the fact that a multilateral agreement seems unlikely, several bilateral agreements have been implemented among many of our major trading partners. Both nations should take note of increasing shifts in trade and investment flows from the Atlantic to the Pacific. In response, the United States and Brazil should seek a fully integrated economic area within this hemisphere. Realizing this opportunity will create an environment for job and wealth creation, a priority our countries share. As President Obama said during his presidential visit to Rio in March 2011, "together we can advance our common prosperity." Let's continue on this path of mutual collaboration in a bilateral trade and investment relationship.

Conclusion

I appreciate the opportunity to present this testimony to the committee.

Thank you for your time and consideration.



Chairman NUNES. Thank you, Dr. Gluski.

Mr. Hundt, you are recognized for five minutes.

STATEMENT OF DOUG HUNDT, PRESIDENT, UNDERGROUND SOLUTIONS, VERMEER CORPORATION

Mr. HUNDT. Chairman Nunes, Ranking Member Rangel, and members of the Trade Subcommittee, thank you for the opportunity to testify today.

My name is Doug Hundt, and I serve at Vermeer Corporation located in Pella, Iowa, and I am President of our Underground Solutions and our global operations for Vermeer.

For more than 65 years, Vermeer Corporation has been a leader in providing agricultural and industrial equipment that is built tough, that is reliable, and that has value, and we also back that by a tremendous customer service. Vermeer is a privately held company. We have 2,400 people located in Pella, Iowa and an additional 600 people throughout the world, and we reach our customers in more than 60 countries. Our footprint extends around the world, including Brazil.

Vermeer has had a presence in Brazil for over 30 years through its dedicated in-country dealers. Most recently, three years ago, we invested in a facility to enhance our distribution and also localize and support our subsidiaries in the region, and we are extremely bullish on Brazil. It is a market with a great need for the products we manufacture across all of our segments.

We serve the infrastructure, energy, renewables, and mining markets, and our business is growing rapidly. Brazil, as I said, has tremendous growth, and we have that as one of our top focuses for our company.

While there is great potential in Brazil and we are very bullish on Brazil, there is also great challenges. Beyond the normal challenges of doing business internationally, in Brazil we do engage in complexity in trying, for example, to get our business licenses, to get our export licenses, that has taken us between six months and 12 months, and in other countries we often see that process in a shorter time period. So although those are challenges, those are also things that we continue to work through in country.

Perhaps our most pressing challenge facing our country and Brazil is the cost of importing equipment. After factoring in freight, insurance, import duties, three cascading taxes, and 13 additional fees, the purchase price for a customer in Brazil purchasing our equipment is oftentimes 60 percent higher than a customer who had purchased the equipment in the United States. So often for our customers that certainly becomes a big challenge, and again, that is our most pressing issue to date for our company.

So lowering the costs, what that does is obviously increases the accessibility for our products and creates jobs in the United States.

We strongly support constructive and positive ways in which the United States can build a closer economic and trading relationship with Brazil. Our CEO, Mary Andringa, feels also strongly about this relationship, and she, too, serves on the U.S.-Brazil CEO Forum, a unique venture where both the private sector and government of both countries engage issues and seek results in a positive way.

Both the United States and Brazil face political and structural realities that affect the discussion. Yet we believe the timing for increased conversation with Brazil is right. We believe in more visible, transparent, and higher profile U.S.-Brazil dialogue ought to occur regularly. It should establish clear milestones to measure progress, building off early dialogues and efforts.

We believe as well that Brazil and the United States can and should be working closely together in the World Trade Organization and other forums to advance more open and competitive international economy to achieve common interests.

Working to grow Brazilian and U.S. economies and working together in common international goals will help grow manufacturing, jobs and opportunities.

Thank you, and again, I appreciate the opportunity to testify today.

[The prepared statement of Mr. Hundt follows:]

Written Testimony of Doug Hundt
President, Underground Solutions
Vermeer Corporation
United States House of Representatives
Committee on Ways and Means
Trade Subcommittee
U.S.-Brazil trade and Investment Relationship: Opportunities and Challenges
June 12, 2013

Chairman Nunes, Ranking Member Rangel, and Members of the Trade Subcommittee, thank you for the opportunity to testify on the opportunities and challenges faced by U.S. companies in doing business with Brazil. My name is Doug Hundt, and I serve at Vermeer Corporation as President of Underground Solutions. In my role, I oversee the underground and excavation segments, as well as international entities and emerging markets.

Vermeer Background:

For more than 65 years, Vermeer Corporation has been a leader in providing agricultural and industrial equipment that is built tough, built to perform, built for value and backed by caring customer service. Vermeer is a privately held manufacturer, based in Pella, Iowa, with nearly 3,000 employees. Founded by Gary Vermeer, the company is in its second generation of family management under Chief Executive Officer Mary Vermeer Andringa and Chairman of the Board Robert L. Vermeer, as well as members of the third generation. Today, Vermeer reaches customers in more than 60 nations. Our footprint extends around the world, including locations in the Netherlands, Germany, China, Singapore, Hong Kong, Canada and Brazil, as well as various wholly and partially-owned subsidiaries in several states. Over 500 dealership locations worldwide offer local parts, service and sales support.

What Our Company Does:

The Vermeer team serves customers with forage, specialty excavation, environmental and underground equipment products to more efficiently and responsibly:

Work farms and ranches. Vermeer forage products are used worldwide by farmers, ranchers and livestock producers to achieve better results and cost efficiencies in their haying, feeding and bedding operations. Our equipment also helps them meet and overcome the challenges of harvesting crop residues for the fast-emerging biomass industry. Recognized for inventing the round hay baler, our agriculture equipment line now includes: Balers, Bale Processors, Bale Wrappers, Cob Harvesters, Disc Mowers, Mower Conditioners, Rakes, Tedders and Trailed Mowers.

Improve infrastructure. Our equipment enables more efficient infrastructure work across the world. Whether it's the utility worker installing residential communications, water and sewer lines, or a contractor installing cross-country pipeline, they can efficiently connect our world through the use of Vermeer equipment. Vermeer equipment and technologies that help our customers improve infrastructure include: Horizontal Directional Drills, Guided Boring Systems, Mini Skid Steers, Mix Systems, Plows, Pneumatic Piercing Tools, Reclaimers, Rockwheels and Trenchers.

Manage our natural resources. Vermeer equipment is used for responsibly managing and utilizing natural resources around the world. Waste management contractors, tree care crews, landscapers, biomass power plant owners and mining professionals all use Vermeer equipment to reduce green waste, harvest alternative energies including solar and biomass, and precisely extract valuable minerals and resources from the earth. Whether chipping pruned tree branches around the U.S. Capitol, grinding sugar cane trash in Brazil for renewable energy, installing PV pedestals in South Africa for solar farms, or doing precision iron ore mining in Western Australia, Vermeer equipment is at the heart of managing natural resources around the world. These products include: Brush Chippers, Stump Cutters, Compost Turners, Trommel Screens, Pile Drivers, Mowers, Balers, Rakes, Surface Miners, Horizontal Grinders, Tub Grinders and Whole Tree Chippers.

Opportunities:

Manufacturers in the United States have long sought to be partners in Brazil's growth and development. As the 5th most populous country and one of the largest economies in the world, Brazil has been an important trading partner for the United States. In 2012, Brazil was the United States sixth largest trading partner worldwide. Notably, manufactured good exports represented nearly 94% of total U.S. exports to Brazil in 2012. Top U.S. manufactured goods exports include chemicals, transportation equipment, computers and electronics and machinery.[1]

Vermeer has been present in Brazil for over thirty years by exporting to and through dedicated in-country dealers. Vermeer played an important role as a supplier of equipment used in major development projects in Brazil, including the fiber optic telecom installations of the 90's and more recently the surge of biomass projects for delivery of clean and sustainable energy. Due to Vermeer's focus on strengthening our presence in this growing market, and in order to use Brazil as a base for our Latin America regional efforts, a decision was made to establish a local, wholly-owned subsidiary to handle distribution and after-sale support. Our local facility also engages in equipment service, equipment refurbishment, modifications to meet local needs, and is exploring whether certain products may require local assembly to remain competitive in the Brazilian market due to the costs of importation. In order to accelerate local and regional business development, Vermeer relocated a company Vice President to Brazil in 2010 to lead regional development strategy and the growing Vermeer Latin America team comprised of 40 people based in Valinhos, SP.

We are bullish on the Brazilian market. It is a market with a great need for the products we manufacture, across all of our industry segments. End users have a strong preference for our products, and U.S. products in general, and our business practices are highly appreciated by our Brazilian customers. Despite the significant challenges for a medium-sized U.S. manufacturer in doing business in Brazil, our business is growing rapidly due to Brazil's growth and need for the solutions we provide.

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[1] **Source:** Bureau of Census Data (Trade Stats Express).

Here are a few examples of needs being met with Vermeer solutions in Brazil:

1. Laser guided, precision-grade sewer systems will be installed or rehabilitated in Recife, without ripping up streets, through the use of Vermeer guided boring systems, reducing the cost and speeding up completion while allowing for upsizing capacities and minimizing traffic disruption.
2. In both urban and cross-country settings, contractors across Brazil are installing fiber-optic networks with the use of Vermeer's vibratory plows, trenchers and horizontal directional drilling machines. Much of this work is being done to upgrade broadband capacity in anticipation of hosting the FIFA World Cup in 2014 and the Olympics in 2016.
3. Ribeirão Preto, widely recognized as an epicenter of Brazil's dynamic agricultural industry, is one of several regions where raking, baling, transporting and then grinding sugar cane trash allows what was once considered waste to be utilized for generating electricity.
4. Helping farmers feed a growing population. Recently a dairy farmer in the state of Sao Paulo told us that in just 60 days he was able to increase his milk production by 10% thanks to the improved feed quality produced by his new Vermeer mower, rake and baler.
5. Using brush chippers and grinders in municipalities for tree management and environmental management of MSW. There is a growing demand for this type of solution for the urban forests and overhead line maintenance in cities like Campinas.
6. From Natal where they use branches pruned from cashew trees, to São Paulo where they use eradicated orange trees, and in Mato Grosso where they use eucalyptus trees sustainably planted and harvested, Vermeer chippers and grinders are an integral part of the biomass and renewable energy industry.

Challenges:

There are challenges that Vermeer and virtually all other U.S. companies have, especially smaller to medium sized businesses, in doing business with any international customer or country. Language, cultural differences, currency, differences in laws and contracts, distance, time zones and political risks are a part of doing business with any foreign country. And while these are all applicable to an Iowa-based manufacturer doing business with Brazilian customers, we would like to highlight some additional challenges we face that are more unique to our experience in Brazil. These challenges significantly and unnecessarily raise the cost of doing business with Brazil and limit stronger partnerships and greater competitiveness, both for Vermeer, but also for the Brazilian economy.

Issues we confront can often be grouped into complexity/bureaucracy and the cost of importation. This can be explained better by example. It took us more than six months to be issued a business license / taxpayer number (CNPJ). The same process for our Singapore office was completed in half a day. To receive a limited import/export license required six months and an additional twelve months to be issued a full import/export license. This forced us to operate our business during the startup phase through a costly and ineffective broker channel. We regularly have to apply for and renew licenses and powers of attorney in order to conduct some of the most basic business activities such as issuing invoices and participating in competitive bids. These are activities that in other locations are accomplished with a simple signature. And the process of importing equipment is not efficient, transparent or consistently applied. These are operational challenges in doing business with or in Brazil. The challenges that Vermeer faces in terms of complexity and bureaucracy are faced by many other businesses as well. Indeed, the World Bank's *Doing Business 2013* rated Brazil at 130 of 185 countries on overall ease of doing business. The World Bank notes that it takes approximately 119 days to start a business in Brazil, compared to the Latin American average of 53 days or the OECD average of 12 days. Brazil was also ranked 123 out of 185 countries in terms of the ease of trading across borders, because of the complexities and time required to import and export products.[2]

Perhaps our most pressing challenge is the cost of importing our equipment into Brazil, including the cost of cascading taxes and fees, the formalities behind the border, and the effect on our product demand and our competitiveness relative to Brazilian alternatives. After factoring in freight and insurance from the United States to Brazil, import duties, 3 cascading taxes, and 13 additional fees, the purchase price for our end users in Brazil is, on average, 60% higher than for an end user in the United States. That's a significant deterrent. We have direct competition with just a few of our products in Brazil so the most important issue is the impact that a significantly higher cost has on aggregate demand and the negative effect increased costs have upon Brazilian infrastructure and development. One encouraged method to reduce cost is to perform enough value-added activity on a product in Brazil to achieve 60% local content and thereby qualify for lower duties and a variety of other local benefits. The U.S. government has just started a new initiative to look into such localization barriers to trade and their impact on competitiveness. In this regard, it is noteworthy, however, that we, and most other small to medium-sized U.S. companies, do not have the volume of any one product in Brazil to achieve the type of scale necessary to make this type of localization feasible or practical. Again, Vermeer's experience in Brazil is consistent with other businesses; the World Bank noted that the cost to import into Brazil equaled on average $2,275 per container, substantially more than the $1,612 per container average for Latin America and more than twice the OECD average of $1,080.[3]

High tariffs contribute significantly to the increased cost of our products in the Brazilian market. According to the *WTO Tariff Profiles* (2012) report, Brazil maintained substantial inbound tariff rates of 30.8% on non-agricultural goods in 2011, with applied rates of 14.2%, although those data were assembled before Brazil raised tariffs on 100 products in October 2012. For industrial products, Brazil's tariffs can run as high as 35%.[4] Tariff increases that Brazil imposed in 2012 affected about 1 billion in U.S. exports. Groups like the National Association of Manufacturers (NAM) have urged the Brazilian Government to reverse these tariff increases and seek to grow economic opportunities through trade liberalization.

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[2] World Bank, *Doing Business 2013- Brazil, accessed at* http://www.doingbusiness.org/data/exploreeconomies/brazil#trading-across-borders.
[3] Id.
[4] USTR, **National Trade Estimate Report - Brazil** (2013), accessed at http://www.ustr.gov/sites/default/files/2013%20NTE%20Brazil%20Final.pdf.

Closing:

We appreciate this Committee's recognition of both the opportunities and challenges for U.S. companies doing business with Brazil, and for seeking input from the private sector from our everyday experiences. We strongly support constructive and positive ways in which the United States can build a closer economic and trading relationship with Brazil. Our CEO, Mary Andringa, feels strongly about the relationship and opportunity with Brazil that she is willing to invest her time to be involved as a member of the U.S. Brazil CEO Forum, a unique venue where both the private sector and government of both countries engage issues and seek results in a positive way. Both the United States and Brazil face political and structural realities that affect the discussion. Yet we believe the timing for increased conversation with Brazil is right given the political timeframes of each country, the need for growth, the fact that we're in talks regarding other significant trade deals (TPP and TTIP), which create some urgency on the Brazilian side, and the need for infrastructure development in Brazil ahead of significant events.

Further, we believe a more visible, transparent and higher profile U.S.-Brazil dialogue ought to occur regularly. It should establish clear milestones to measure progress. Several good and full-faith efforts have developed over the last few years as progress on many fronts showed promise. To mention a couple, the United States and Brazil created the U.S.-Brazil Commercial Dialogue in June 2006 to advance trade and investment, export and investment promotion, intellectual property protection, and standards. In 2011, the United States-Brazil Agreement on Trade and Economic Cooperation (ATEC) established the U.S.-Brazil Commission on Economic and Trade Relations, which held its first meeting in March 2012 to address key issues, such as trade facilitation, intellectual property rights and innovation, and technical barriers to trade. The Commission established a bilateral dialogue on investment and a working group on intellectual property and innovation. Perhaps these good venues for progress could benefit from increased visibility, transparency and profile, with more certain measurements and milestones. This is somewhat likened to the visual management found in manufacturing.

We believe as well that Brazil and the United States can and should be working closely together in the World Trade Organization (WTO) and in other forums to advance a more open and competitive international economy and to achieve common interests in third country markets. Areas where progress can be made that would advance the U.S.-Brazil commercial relationship include working to achieve a Customs and Trade Facilitation and Information Technology Agreement expansion in the WTO this year, and joining the WTO's Agreement on Government Procurement to provide and receive reciprocal access to government procurement markets. Each of these agreements will facilitate trade and lower the cost of doing business, which will add to the competitiveness of the U.S. and Brazilian economies.

Thank you for holding this hearing today and for your interest in obtaining more information on the opportunities and challenges facing Vermeer and other U.S. companies doing business in Brazil. I look forward to answering any questions you may have.

Chairman NUNES. Thank you, Mr. Hundt.

Mr. Marques.

STATEMENT OF ROBERTO MARQUES, COMPANY GROUP CHAIRMAN, JOHNSON & JOHNSON CONSUMER COMPANIES OF NORTH AMERICA

Mr. MARQUES. Thank you, Chairman Nunes, Ranking Member Rangel, and distinguished members of the House Ways and Means Subcommittee on Trade for allowing me the opportunity to testify today.

My name is Roberto Marques, and I am the Company Group Chairman for Johnson & Johnson Consumer Companies of North America. I am really honored to testify today on behalf of the U.S. Section of the Brazil-U.S. Business Council.

The council is a leading organization dedicated to strengthening the economic and commercial relationship between the United States and Brazil. The council was established in 1976 and represents more than 100 major U.S. companies with investment and business in Brazil. It is the oldest and largest bilateral private sector group focusing on the U.S.-Brazil commercial relationship.

Johnson & Johnson is proud to serve on the board of the directors of the U.S. Section of the council.

As you might have guessed from my accent, I am actually a Brazilian citizen, born and raised in Sao Paulo. So for my colleagues here from Brazil (speaking in foreign language).

I joined Johnson & Johnson in Brazil in 1987, before moving to the United States. In my more than 20 years with the company, I had the good opportunity and fortune to work across Johnson & Johnson's three business sectors: the pharmaceutical sector, the medical device and diagnostic and consumer business. And I have served around the world in three different continents.

So it is really very exciting personally and professionally to be here on behalf of the U.S. Section of the Brazil-U.S. Business Council. My first observation is that there is a great opportunity for the combining of strengths to benefit both Brazil and the United States. Brazil currently needs a great deal of infrastructure to be developed as it grows and takes on several challenges on the world stage in the next few years, such as holding the World Cup and the Olympics—The World Cup next year, and the Olympics in 2016 in Rio de Janeiro.

At the same time, Brazil needs to signal that it is welcoming investment and the involvement of world class businesses to develop its economy further. As the world's sixth largest economy, Brazil has become a vital market for U.S. companies.

Growing trade; significant oil discovery; financial stability; inflation under control; rising investment; a booming 50 million middle class who over the last ten years moved from poverty to now actually be growing and consuming products, traveling, and really, you know, enjoying the benefits of the middle class; political stability are some of the factors that have contributed to Brazil's rise as a prospering and influential country on the world stage.

I do remember on a personal note for many, many years Brazil was called the "Country of the Future" and the future never arrived. I would say now they are really glad to see that the future has finally arrived, and we are experiencing that in growing opportunity in Brazil.

U.S.-Brazil trade has seen significant progress in recent years. U.S. merchandise exports to Brazil reached $44 billion last year. Brazil's growing middle class made it an attractive market for U.S. exporters and for U.S. investors, many of which are in sectors such as service that can only tap the local market by means of a local presence.

In my industry, for example, health care benefits this growing middle class that demands, among other things, higher levels of health care. Johnson & Johnson is very proud of our company presence in Brazil. We have operated there for over 80 years. Our sales are almost $2 billion and growing 20 percent.

Our exports from the U.S. to Brazil last year were over $165 million, and we are committed to doing business in Brazil and have made substantial investments that support 6,000 direct and 25,000 indirect jobs.

However, it is clear that U.S. and Brazilian firms have barely tapped the possibilities of this relationship. Brazil markets are far more open to imports than they were 15 years ago, but tariffs and other barriers are on average significantly higher than those of most of other middle income economies.

The Brazil-U.S. Business Council has labored for years to facilitate companies' access to the Brazil market via its strategic policy deliverable of the many issues that the council works on. I would like to mention three of our top priorities.

First, the council has been actively promoting the idea of a bilateral trade agreement known informally as "bilateral economic partnership agreement."

The council's second priority is the launching of negotiations for a bilateral tax treat. Brazil is the largest market in the world with which the U.S. has not negotiated such an agreement, and doing so would support growth and job creation in both countries.

Thirdly, the council advocates for facilitated entry and ultimately visa free travel between the United States and Brazil. Visa free travel is a win-win for both countries. Brazilians are almost the highest spending visitors to the United States in terms of outlays for travel. Believe me, I know that for a fact.

This means U.S. jobs. To that end, the council supports the inclusion of Brazil in the U.S. visa waiver program and the U.S. global entry program. In both cases we support reciprocal actions by Brazil.

We greatly appreciate the efforts of this Subcommittee in organizing this hearing and providing congressional leadership of U.S.-Brazil trade issues. The Brazil-U.S. Business Council is at the disposal of this Subcommittee to work on issues relating to trade and investment between the United States and Brazil.

Thank you for this opportunity.

[The prepared statement of Mr. Marques follows:]

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Written Statement of Roberto Marques
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Johnson & Johnson Consumer Companies of North America
On behalf of the U.S. Section, Brazil-U.S. Business Council

Hearing on
"U.S.-Brazil Trade and Investment Relationship:
Opportunities and Challenges"

House Ways and Means Subcommittee on Trade
June 12, 2013

10:00 a.m.

Thank you, Chairman Nunes, Ranking Member Rangel, and distinguished members of the House Ways and Means Subcommittee on Trade for allowing me the opportunity to testify today. My name is Roberto Marques, and I am the Company Group Chairman for the Johnson & Johnson Consumer Companies of North America.

About the Council and the Chamber

I am honored to testify today on behalf of the U.S. Section of the Brazil-U.S. Business Council (BUSBC). BUSBC is the premier business advocacy organization dedicated to strengthening the economic and commercial relationship between the United States and Brazil. BUSBC was established in 1976. It is the oldest and largest bilateral private sector group focusing on the U.S.-Brazil commercial relationship. I am especially honored because I am from Brazil, and it is my passion to do my part in building cooperation between two great countries.

BUSBC is comprised of two sections. The U.S. Section represents more than 100 major U.S. companies with investments and businesses in Brazil. Johnson & Johnson is proud to serve on the board of directors of the U.S. Section of BUSBC. The Brazil Section represents Brazilian companies and trade associations with investments and businesses in the United States. It is housed in the Brazilian National Confederation of Industry (CNI) and is chaired by Embraer.

BUSBC also works in conjunction with the American Chamber of Commerce for Brazil (in São Paulo), the American Chamber of Commerce in Rio de Janeiro, the U.S.-Brazil CEO Forum, and sectoral associations in both countries. This structure enables BUSBC to forge consensus between the two private sectors and communicate to both governments with a unique bilateral voice.

The U.S. Section of the BUSBC is an affiliate of the U.S. Chamber of Commerce. The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and dedicated to promoting, protecting and defending America's free enterprise system. Its International Affairs division includes more than 50 regional and policy experts and 25 country- and region-specific business councils and initiatives.

About Johnson & Johnson

Johnson & Johnson has approximately 127,600 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being. Research and development activities represent a significant part of our business, and last year we spent over $7.5 billion worldwide, $4.0 billion of that amount in the U.S. Those research dollars help support, among other things, 3,763 clinical trials on new and life-improving pharmaceuticals and are being conducted with the enrollment of 183,200 patients at 8,465 trial sites.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment, which I lead in North America, includes a broad range of products used in the baby care, skin care, oral care, wound care and women's health fields, as well as nutritional and over-the-counter pharmaceutical products and wellness and prevention platforms. The Pharmaceutical segment includes products in the following areas: anti-infective, antipsychotic, contraceptive, gastrointestinal, hematology, immunology, infectious diseases, neurology, oncology, pain management, thrombosis and vaccines. The Medical Device and Diagnostics segment includes a broad range of products to treat cardiovascular disease; orthopedic and neurological products; blood glucose monitoring and insulin delivery products; general surgery, biosurgical and energy products; professional diagnostic products; infection prevention products; and disposable contact lenses.

Johnson & Johnson makes an important contribution to the U.S. economy. We have 48,000 direct jobs in the U.S. which in turn help support 254,700 indirect jobs, which means for every one direct job in the U.S., we support 5.3 additional jobs in the U.S. economy. Similarly, for every dollar of Johnson & Johnson output, we add 1.4 dollars in additional indirect output in the U.S. economy.

We are also very proud of our company's presence in Brazil where we have operated for 80 years. Johnson & Johnson's sales in Brazil are almost $2 billion per year with an estimated 20% operational growth. We are committed to Brazil and have made substantial investments there that support 6,000 direct and 25,600 indirect jobs.

Our major facilities are at the São José dos Campos Industrial Park which makes a variety of products including toiletries, dental hygiene products, needles, sutures, and over-the-counter drugs. The Johnson & Johnson Consumer R&D Center in Brazil employs 180 scientists. We have research and development activities in Brazil including 35 clinical trials, enrolling 5,135 patients and 1,556 health professional at 152 sites. We very much view our relationship with Brazil as one that benefits both the U.S. and Brazilian economies as well as consumers, patients, and ultimately our company.

Progress and Prospects for Bilateral Commerce

As the world's seventh largest economy, Brazil has become a vital market for U.S. companies. Growing trade, significant oil discoveries, financial stability, low inflation, rising investment, a booming middle class, and political stability are some of the factors that have contributed to Brazil's rise as a prosperous and influential country on the world stage.

U.S.-Brazil trade has seen significant progress in recent years. U.S. merchandise exports to Brazil reached $43.7 billion last year, representing an increase of more than 250 percent over the past decade. Brazil's growing middle class has made it an attractive market for U.S. exporters and for U.S. investors, many of which are in sectors (such as services) that can only access the local market by means of a local presence.

However, it is clear that U.S. and Brazilian firms have barely tapped the possibilities of this relationship. Brazil's market is far more open to imports than it was 15 years ago, but its tariffs and other barriers are on average significantly higher than those of most other middle income economies. Reflecting this reality, most foreign investment in Brazil is focused on reaching its large domestic market and is not intended to leverage Brazil's potential as an export platform.

This situation is not changing as global trade talks advance. Today, the United States is undertaking ambitious negotiations with major markets in the Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP). These "mega-regional" trade negotiations will encompass a majority of the world's purchasing power, magnifying their potential commercial value. In Geneva, negotiations are now underway for a Trade in Services Agreement (TISA) that aims to establish a high-standard free-trade agreement among nearly 50 countries, and hopes are high that negotiators will conclude talks to expand the product coverage of the highly successful Information Technology Agreement (ITA) within months.

Unfortunately, Brazil is not yet participating in these negotiations. The Council considers this a lost opportunity because Brazil is home to dynamic, innovative companies with tremendous competitive advantages based on its human capital and natural resources, as well as its strong democracy.

Changing Views in Brazil

There are signs this may be changing. Brazil's agricultural sector, which is among the world's most competitive, long ago adopted an outward-looking orientation and has focused on the country's vast possibilities as an exporter. Brazilian agribusiness leaders argue forcefully that the country will benefit greatly if it can win improved access to foreign markets. In addition, Brazil's services market is relatively open and competitive.

The manufacturing sector's views may be changing as well. Brazil's National Confederation of Industry (CNI) has suggested it is dissatisfied with the way Mercosul has held Brazil back from undertaking external trade negotiations. Brazil's Federation of Industries of the State of São Paulo (FIESP), has echoed this dissatisfaction with Mercosul, suggested that Brazil's internal market may be insufficient to guarantee its future, and has indicated that Brazil should explore the possibility of negotiating market-opening trade agreements bilaterally.

In this sense, the United States is an obvious partner. While China has overtaken the United States as an export market for Brazil, Chinese imports from Brazil are dominated by raw materials such as iron ore and soybeans. In contrast, the United States is a key market for the export of Brazil's value-added products, making the United States an important partner in efforts by Brazilian firms to climb the value chain. Towards that end, BUSBC sees as important Congressional action for the renewal of the U.S. Generalized System of Preferences, a key program for Brazilian exports to the United States. Global value chains do not connect the United States and Brazil as tightly as the United States and Mexico or China and Japan, for instance, but they are significant in some sectors, such as aerospace, and offer a platform for further growth.

Brazil's vigorous and successful campaign in favor of the selection of its native son Roberto Azevêdo as the next Director-General of the World Trade Organization (WTO) is a sign that Brazil aspires to be a leader in international trade issues (while acknowledging that the highly regarded Azevêdo will represent the interests of all 159 WTO Members once he assumes his new role on September 1). This was also underscored by a Brazilian agriculture proposal at the WTO last fall (relating to the administration of tariff-rate quotas) that the United States praised as helpful in building support for a package of tangible deliverables at the WTO's 9th Ministerial Conference scheduled to be held in Bali, Indonesia, in December.

In sum, Brazil's private sector is emerging as a voice in favor of closer trade ties — and new trade agreements — with other nations, including the United States. The Brazilian government's efforts to push forward negotiations at the WTO are positive as well. Perhaps the ground has been prepared for Brazil to assume new ambitions in its international trade and investment policies befitting its emergence on the world stage.

The Council's Policy Priorities

BUSBC has labored for years to facilitate U.S. companies' access to the Brazilian market via strategic policy deliverables. Of the many issues that BUSBC works on, I am here today to speak on three of our top priorities regarding the bilateral relationship. They are the launching of talks on a *Bilateral Economic Partnership Agreement*, the starting of negotiations on a *Bilateral Tax Treaty*, and *visa-free, entry-facilitated travel*.

a. Bilateral Economic Partnership Agreement

Since the visit of Brazilian President Dilma Rousseff to the United States in April 2012, BUSBC has been actively promoting an all-encompassing bilateral trade agreement known informally as a Bilateral Economic Partnership Agreement. Today there is consensus between the U.S. Section and the Brazil Section of BUSBC on the need to explore such a partnership. This consensus opens the door for a more structured discussion with the Brazilian private sector and the U.S. and Brazilian governments.

Why pursue such an agreement? First and foremost, U.S.-Brazil trade in goods and services of $100 billion annually is still far from its potential. As Vice President Joseph Biden said in his recent trip to Brazil, "There's no reason why that cannot be $400 billion to $500 billion a year." Second, such an agreement could also boost two-way foreign direct investment flow to a more significant level. The stock of U.S. foreign direct investment in Brazil was $71.1 billion in 2011, up 10.8% from 2010. Brazilian foreign direct investment in the United States was $5.0 billion in 2011, up 266% from 2010. A Bilateral Economic Partnership Agreement would provide greater predictability and confidence to investors in both countries. With so much to gain on both sides, we hope Congress will support further exploration of this proposal.

b. A Bilateral Tax Treaty

BUSBC's second priority is the launching of negotiations for a Bilateral Tax Treaty. This would provide for the elimination of double taxation, the reduction and/or elimination of taxes on royalties, interests, and dividends, and the establishment of a dispute settlement mechanism. Brazil is the largest market in the world with which the United States has not negotiated such an agreement, and doing so would spur growth and job creation in both countries.

On that front, we applaud the Brazilian Senate's approval earlier this year of the 2007 U.S-Brazil Tax Information Exchange Agreement (TIEA). This agreement will greatly facilitate cooperation between the Brazilian Federal Revenue Service and the Internal Revenue Service, and by some measures makes the negotiation of a Bilateral Tax Treaty much easier. With the TIEA approved, there is an opportunity for the U.S. and Brazilian private sectors to advocate for the launching of formal Bilateral Tax Treaty negotiations. The upcoming State Visit of President Rousseff to Washington in October should create additional momentum in securing this goal, and we urge Congress to lend its support as well.

c. Visa-Free and Entry-Facilitated Travel

BUSBC advocates for entry-facilitated and ultimately visa-free travel between the United States and Brazil. To that end, BUSBC efforts focus on two complementary goals: the inclusion of Brazil in the U.S. Visa Waiver Program and in the U.S. Global Entry program. In both cases, we strongly support reciprocal actions by Brazil. One example of progress in this area is Brazil's newly created expedited process for issuance of visas to temporary workers. This action will facilitate the entry of U.S. high-skilled workers on assignment in Brazil.

Visa-free travel is a win-win for both countries. Brazilians are among the highest-spending visitors to the United States in terms of outlays per traveler. The number of Brazilians visiting the United States has quadrupled since 2004, reaching 1.5 million in 2011, according to the U.S. Department of Commerce. Their total expenditures that year reached $8.5 billion, or more than $5,600 per visitor. Visa-free travel would multiply these visitors and the growth-driving, job-creating benefits it provides for the U.S. hospitality industry.

From the perspective of U.S. business and leisure travelers, the upcoming soccer World Cup and Olympic Games to be held in Brazil are likely to attract millions of U.S. tourists who would benefit from visa-free entry into Brazil. Visa-free travel would also be valuable for the many business people and temporary workers who travel frequently between the U.S. and Brazil. I must add that reflecting our deep involvement in Brazilian society, Johnson & Johnson is also proud to be the exclusive and official healthcare sponsor of the 2014 FIFA World Cup Brazil™, the first health care company to be so honored in the history of the competition.

Deepening the Partnership through Dialogue

Brazil and the United States have a long history of positive relations. This relationship has strengthened in recent years, as demonstrated by high-level policy mechanisms between the two countries and the frequency of presidential meetings. There are approximately 30 dialogues between the two countries that involve key government agencies and both countries. Of all the dialogues in place, four of them are Presidential-level dialogues: the Global Partnership Dialogue (2010), the Strategic Energy Dialogue (2011), the Economic and Financial Dialogue (2011), and the more recent Defense Cooperation Dialogue (2012).

BUSBC stresses the importance of private sector participation in these dialogues. Such participation exists in the Strategic Energy Dialogue, the Commercial Dialogue, and the ICT and Internet Policy Dialogue. BUSBC has consistently seen positive results from such interaction. Ideally, we would like to duplicate the channels of communication created by the various government-to-government dialogues in the private sector. For that to happen, BUSBC advocates for formal participation of the private sector in all the dialogues and working groups already created by both governments.

While there is a great deal of potential in Brazil, speaking as a representative of one of the world's largest health care companies, I must also note the importance of strengthened intellectual property rights protection, internationally consistent procedures for patent review, and an open and transparent regulatory process. We must be able to discuss our differences as well as our commonalities if we wish to have a truly productive bilateral relationship. If Brazil hopes to become a leader in innovation, it must be certain that is adequately protecting innovators.

One Roadblock: The Cotton Dispute

I would like to highlight one important issue vis-à-vis bettering the Brazil-U.S. trade relationship: the U.S.-Brazil cotton dispute. BUSBC, through its leadership role in the Brazil Trade Action Coalition, known as BRAZTAC, has worked with both governments and the U.S. Congress to deter WTO-sanctioned retaliation by Brazil relating to the cotton dispute — which could impact U.S. goods, services, and intellectual property valued as high as $1 billion by some estimates — and to encourage a definitive resolution to the dispute since 2010. BRAZTAC is comprised of a broad range of U.S. agricultural, manufacturing, services, and technology businesses and trade associations that support a solution to prevent Brazilian trade retaliation against U.S. goods and intellectual property rights.

Such a definitive resolution of the dispute is within reach. We trust that the U.S. Congress will pass a 2013 Farm Bill that brings the United States into compliance with its WTO obligations relating to this dispute, thus removing the risk of WTO-sanctioned trade retaliation against U.S. exports and intellectual property. It is important that the United States lead by example, and only by meeting our own trade obligations can we effectively urge all other countries to similarly meet their trade obligations. In the meantime, we appeal to Congress to maintain the temporary framework agreement that has deferred retaliation until the Farm Bill is passed.

Conclusion

We have achieved significant progress in the bilateral relationship between United States and Brazil. This progress has been gradual and steady, from the recent approval of the Tax Information Exchange Agreement by Brazil to the elimination of the ethanol tariff by the United States and many other accomplishments. In the near term, President Rousseff's State Visit should provide an opportunity to advance talks on a Bilateral Tax Treaty, Brazil's inclusion in the Global Entry Program, and the approval of various bilateral agreements that have yet to be ratified by the Brazilian Congress.

Other areas where the BUSBC is pressing for improvements in Brazil's business climate include harmonization and transparency in the rule-making process, protection of intellectual property, and the minimization of local content regulations in various sectors within Brazil. In the long run, we see great potential in partnerships between the two countries in the areas of energy, defense and security, and ICT and Internet policy.

We greatly appreciate the efforts of this Subcommittee in organizing this hearing and honing congressional leadership on U.S.-Brazil trade issues. BUSBC is at the disposal of the Subcommittee to work on issues relating to trade and investment between the United States and Brazil. Likewise, we reiterate our desire to continue to work closely with the Brazil Caucus in its mission to foster understanding and enhance the U.S. relationship with Brazil.

Thank you for this opportunity. I look forward to your questions.

Chairman NUNES. Thank you, Mr. Marques.

In my opening statement I mentioned a plan of trying to streamline all of these dialogues. A few of us were down in Brazil and then working here. In talking to the Brazilians, there are many dialogues, and I know, Mr. Gluski, you serve on one of these dialogues.

So I would ask you for your advice on how we could structure the overall strategic, you know, framework, and then of course, any of you can comment if you have any opinions on it.

Mr. GLUSKI. Sure. I think in terms of the strategic framework, what we have seen at the U.S.-Brazil CEO Forum, we have made progress in specific areas. So, for example, one of the issues was the professional skilled technicians being able to enter Brazil. So they have made changes to be able to grant 90-day visas.

There was the bilateral trade treaty, which has been in discussions for 20 years, has suddenly started to move. So we had the Tax Information Exchange Agreement in terms of the tax information advancement.

So I think that my advice here would be to look at specific areas and, as you are doing, involve the private sector in helping make these executable on the ground.

Chairman NUNES. Mr. McLarty?

Mr. McLARTY. Well, certainly I think all the efforts I applaud and endorse them, but I think you are on the right track in terms of trying to streamline them, better focus them. I think the upcoming state visit gives a real time line to help do that.

We certainly face some of the same dynamics when I had the privilege to serve in government where you had good intent, but I think you have to establish a clear track. I think we have done a pretty good job over the years in both Republican and Democratic White Houses in terms of China, how that has been organized, and I think that is kind of the model, so to speak, or direction that you are moving.

I think accountability is absolutely key in these efforts and can really enhance what can be done. I would agree the private sector certainly needs to be fully engaged in part of that.

Chairman NUNES. Thank you, Mr. McLarty.

Anyone else? Mr. Marques.

Mr. MARQUES. I would agree with their points. I think we are progressing well in a lot of those conversations and dialogues. We should keep the private sector very much involved. We are seeing a lot of progress and inroads in that. So getting that kind of sponsorship from the Congress and government, but keeping the private sector well involved I think will make a difference.

Chairman NUNES. Thank you.

Mr. Hundt, do you have any thoughts?

Mr. HUNDT. I would just echo my colleagues. I think elevation at the highest level is important and also putting real clear goals and tangible goals in place so we know how to support those goals, but also to really make progress on some of the issues outlined today.

Chairman NUNES. Thank you.

I recognize Mr. Rangel for five minutes.

Mr. RANGEL. Thank you, Mr. Chairman. And thank all of you. I can only see a win-win for both countries to work more closely together, and I do hope at the conclusion of this hearing we may get some ideas how we can start to iron out those differences we do have, whether it's currency manipulation or high tariffs or the complex taxes in your country as well as ours.

And I hope it goes without saying that we hope that your leadership and international community could concentrate on Central and South America to bring our continents closer together because this hemisphere has not had a history of mutual respect and mutual cooperation, and we have so many people that have not been pulled into the general society not only to receive the benefits, but more importantly, to make the contributions that they can make to the countries.

And so, Mr. Chairman, I look forward to see what we can do since there is nothing on the table right now that we can be discussing. So we will be depending on the private sector and our State Department to see what we can do to take advantage of this spirit of goodwill and cooperation which we are enjoying now.

Also I was very, very active in working with the Colombian Government on the free trade agreement we have there, and I was so pleasantly surprised to see how the African Colombian community had been brought into their political and economic life so that they were actually coming here to the United States to lobby African Americans in showing that it was a civil rights issue, and how the more people who can get into their middle class, the more they would be able to buy from Americans.

Of course, that is what America is all about, regardless of what the color is, is the middle class, and while we have a great disparity in our country, your country, Brazil, really has the same thing, and without bringing that into trade agreements, you are going to have to help me to get a better understanding about what the government of Brazil is doing to break down these historic barriers that separated the majority of people of color from the minority of those of wealth.

Because a part of trade is freedom, democracy, and that is really more than any one thing what makes Brazil our friend. It is what you think of human life and the principles that you and I enjoy.

So this has been a good beginning, and I am very anxious to take the next step, Mr. Chairman. Thank you.

Chairman NUNES. Thank you, Mr. Rangel.

Mr. Buchanan is recognized for five minutes.

Mr. BUCHANAN. Yes. I want to thank the Chairman for holding this important hearing and thank all of our witnesses.

Just looking at the numbers, $30 billion exported, 32, 34 billion, ten billion of that comes out of Florida. So when I look at what is happening and part of our recovery in Florida, we talk about tourism. We talk about construction picking up a little bit. There is no question about that. Ag. has been pretty good, our ports and stuff, but there is no question in my mind Central and South America play a huge role for our recovery, and it is a big opportunity, not just to the country, but as I focus a little bit more narrowly on Florida.

Then as you mentioned earlier about one company somewhat I've followed for the last seven, eight years, Embraer, they had facilities in Broward County. Now, they are opening up a lot more facilities in Melbourne, which is further north. So that gateway to Central and South America and also in terms of these free trade agreements with Panama and Colombia, but we always think about doing business, and I am very pro doing business. That is what I did for 30 years.

We think about going east and west, and as I think about Florida, we need to be going more south. We are, but we need to be doing a lot more in terms of that opportunity, not just with Florida, but with the country.

So I guess I would add I heard your opening statement, but distilling down, what are a couple of things that we could do to continue? We have got a good relationship, but to take that relationship to another level on a win-win basis?

Because there are parts of the world that we trade with and we have huge negative surpluses, and Brazil is one of those countries that I think has been more than a win-win for the U.S., especially Florida, and we would like to find a way to do more business because at the end of the day we are looking to create more jobs, positive jobs, and a lot of the people that are doing business I know in Florida, they have created a lot of jobs that have benefitted a lot of our people in terms of recovering out of this recession.

Mr. McLarty, do you want to mention your thoughts? What are two or three things that we could do more of to take this relationship to the next level?

Mr. McLARTY. Yes, I will be pleased to. Well, first of all, I think you and Congressman Rangel really encapsulated the right theme, and that is we have a win-win situation here. I think that is really the thrust of this hearing.

I take your point that sometimes we do look east and west, and those are large, emerging markets for sure, but the natural market for the United States in terms of exports and to grow our economy and to grow jobs and to replace the jobs we lost, we are going to have to have top line growth of revenues, and that is going to have to come partly from exports.

So Latin America is a natural market, but one we cannot and should not take for granted, and I think it is the same for Brazil. I think it is a two-way street, and I think we have got to be mindful of that in the United States.

I think to simplify the ability to invest and to trade, whether that goes as far as the free trade agreement, that may be one step too far, but I think enhancing of customs, procedures, reducing tariffs, and other barriers to trade, we must work on diligently on both sides to make the flow easier.

And we are already seeing in our country investment from Brazil. You mentioned Embraer. JBS has made a large investment in the agricultural sector as you know in the heartland. So I think that in itself creates jobs. So those are two or three items that I would emphasize and build on going forward.

Mr. BUCHANAN. Yes, it is amazing to me because we are in pretty much the same time zone, and I just feel like I see the huge impact it has had on Florida and continues to have. I want to make sure we can do more across the country.

Mr. Gluski.

Mr. GLUSKI. Well, I very much agree with what Mr. McLarty said. I think that the key is to expand a little bit of our understanding of Latin America-Brazil in particular—in terms, of the size of their domestic capital markets, the sophistication of the deals that we are doing. For example, it has a lot of imbedded U.S. value add and cases such as ourselves where we are able to raise money and make investments in the countries themselves.

So when I see a lot of the discussion, it is very much just thinking of, let us say, direct trade in goods and not realizing that today how much more intertwined things are, how production has changed. Today, for example, NAFTA has created a production chain from Mexico all the way north. So I think that is going to be expanded in the case of Brazil.

So how to make this a reality, I think, is to continue the discussion that you are having at a high level; try to simplify a lot of the barriers that make this more difficult; and then I think the business sector can, follow once those doors are open.

Mr. BUCHANAN. Mr. Hundt.

Mr. HUNDT. Yes, maybe speaking from a small and medium perspective, the size company, I would agree completely, but if you look at the competencies in the United States and of U.S. manufacturing energy and transportation and agriculture those are our core competencies that we have expertise that we can assist Brazil in moving their economy along.

What I referred to earlier as far as the complexity for small and medium size business because sometimes it can be very difficult to maneuver through and also, again, the landed cost with the tariffs, and it does go both ways, but oftentimes, for example, there is a city in northeast Brazil that is going to be putting sewer in for the first time. It is a city of a million people, and we have a technology that can put the sewer infrastructure in without really open-cutting any of their streets. So it is an advanced technology. We are very interested in introducing it to the country, but that system in the United States would cost a contractor a million dollars. Well, it is going to cost the contractor in Brazil 1.6 million because of the tariffs and the duties that I spoke to earlier.

So it is a significant issue. In our case, we are exporting to Brazil, and we have 2,400 people in Pella, Iowa, and 700 of those jobs are attributed directly to exports. So the more we can an export friendly environment, bilateral trade, it is only going to create more jobs in the United States.

Mr. BUCHANAN. Mr. Marques.

Mr. MARQUES. Thank you.

Not to repeat what my other colleagues mentioned here, which I do agree with in terms of bilateral trade agreements and how can we facilitate the inflow and outflow, I would mention your point on Florida, which I think is a very good example of how the Brazilians really love coming to the United States. So I will go back to the point in terms of action to facilitate the entry.

Miami is a very important port of Latin American, in general, for coming to the United States, as is New York. So facilitating that inflow of people coming to the United States to spend money, buying a second home or spending money in malls and shopping and tourism is such a huge opportunity for the United States.

And there is a very strong bond between the Latin Americans and Brazilians in the United States, they are very similar. Brazil is a well-established democracy was a very strong middle class, an emerging middle class, a very strong internal market and very strong private sector. There are so many similarities that establishing that close relationship I think, again, is a win-win for both economies and both countries.

Mr. BUCHANAN. I want to thank all of our witnesses, and I yield back.

Chairman NUNES. Thank you, Mr. Buchanan.

Mr. Smith is recognized for five minutes.

Mr. SMITH. Thank you, Mr. Chairman, and thank you to our witnesses for sharing your perspective here today.

Obviously Brazil and the United States have tremendous trading potential, and representing a good bit of agriculture in Nebraska, I know that agriculture is a major part of the Brazilian economy as well.

I do have some concerns though. Take, for example, Brazil being the second largest producer and consumer of ethanol. It is obviously an appealing market, and while the main U.S. ethanol tariff expired at the end of 2011, Brazil has only suspended its ethanol tariff, meaning it could be reinstated without notice.

And also I have concerns about beef trade in Brazil, keeping U.S. beef out of their country even though the experts say that BSE is of negligible risk. And so I have those concerns.

But, Mr. McLarty, could you reflect on those a bit and maybe give me some hope that we can iron some of these things out?

Mr. McLARTY. Well, being from an agricultural State as well, I certainly understand and identify with the points and the concerns that you raise. I think the real heart of your points is that it has to be the proverbial two-way street if we are going to really raise this relationship to a more robust level and achieve the potential, the natural collaboration. We are going to have to reduce barriers on both sides, and we are going to have to make it easier for trade to flow between both countries, as well as investment.

I certainly think in terms of some of the non-tariff barriers, we need to depend on sound science and not have those get in the way, for example, of beef and other matters that you raise.

The agricultural issues are going to be the toughest, as they usually are, and you know that so well, but I am hopeful that because Brazil has become so much more of an outward looking country in terms of their ability in terms of exports, that they will see the reciprocal nature of the essential, essential move toward liberalizing their trade and opening their markets as well.

The real issue here is not only creation of jobs, but you have got to increase productivity in Brazil to really raise their standards of living and to continue to build their middle class, as Congressman Rangel noted. So that is the key.

So I think there is some hope. It will have to be pressed, and some of it is getting to understand each other's perspectives better as you well know in reaching common ground, easier said than done, but essential, essential for both countries.

Mr. SMITH. Thank you.

Anyone else wishing to comment on that?

[No response.]

Mr. SMITH. Again, I appreciate a little reflection on this issue and the need to base our trading standards and our policies on sound science, I think, allows us a great opportunity to establish an objective viewpoint so that producers themselves, consumers as well, kind of know what to expect.

So thank you for your time, and I yield back.

Chairman NUNES. Mr. Boustany is recognized for five minutes.

Mr. BOUSTANY. Thank you, Mr. Chairman.

I come from the State of Louisiana, and the energy sector is a very important part of our Louisiana economy, and as I traveled through Brazil back in April, I was struck by the tremendous opportunity for a win-win in the energy sector as we are seeing this revolution in energy markets today.

We have seen the advantage of integrating the U.S. and Canadian energy markets, and I see amazing potential to further integrate energy markets between the U.S. and Brazil, and I know Brazil is carrying out a series of auctions for both conventional and unconventional oil and gas. U.S. companies are certainly well positioned to participate in this, but Brazil has a number of local content requirements and other issues that create barriers.

I have heard from companies back in Louisiana who are trying to do business in Brazil, and so whether it's the pre-salt finds dealing with technology, which we are well equipped to do here in the U.S. or looking at shale plays where we have had tremendous success, trying to get through local content requirements with regard to services and equipment is a big issue, and, Mr. Gluski, if you could comment on this.

Mr. GLUSKI. Yes. I think recently, as you know, Petrobras has tried to lower some of the domestic content rules to lower its cost and increase productivity. I think there are companies that have adapted to this. For example, General Electric actually has the highest domestic content in its wind turbines that it produces in Brazil.

So I think here the point is that U.S. technology is the leading technology, and we need ways for the U.S. companies to participate in the Brazilian economy. Some of it may be, quite frankly, establishing, some manufacturing in Brazil so they can bring in components from the U.S. and then comply with these requirements.

But I certainly agree with you this is a great opportunity for U.S. businesses and those U.S. businesses in your district. It is natural this progresses. It may take some time to develop, but I certainly see the great potential.

Mr. BOUSTANY. Others want to comment on the energy sector?

Mr. McLARTY. Well, having spent a decade in the natural gas business and having the privilege to serve Lake Charles, Louisiana through Entex, which was part of our company, I certainly identify with the opportunities that are present in Brazil with Petrobras, with the oil find and more broadly.

I think Petrobras, as Mr. Gluski noted, has recognized the need to show some flexibility in terms of local content. It is an enormous opportunity for Brazil, not only in development of their reserves and from an energy standpoint, but again, to support and lift their economy and the middle class.

But I would certainly underscore that from a Petrobras and broader standpoint of Brazil, they can enormously gain from U.S.

expertise. So they need to be encouraging that, not impeding it, in the right way.

And secondly, I think they need to minimize or at least mitigate some of the risk that is associated with deep water drilling and not have all their eggs in one basket. I think the senior management of Petrobras recognizes that.

So I think it is a natural opportunity. I think we are already on the right path. It may take a little more time than some of us would like, but natural areas of collaboration in energy and agriculture, both countries are blessed, fortunate to have tremendous resources in those areas.

Mr. BOUSTANY. Thank you.

And I also believe that Brazil would benefit tremendously from joining the ongoing negotiations involving the Trade and Services Agreement at The WTO. They have been reluctant to do so. There are some 50 countries that are now representing two-thirds of global services involved in this, which also includes energy services trade, and so I am still trying to understand the reticence on the part of Brazil to participate in TISA, or the Trade and Services Agreement, and I would like for each of you to comment if you would on this.

Mr. GLUSKI. I really do not have any particular insight into that, only that in Brazil there are domestic content requirements, if you will, and services as well, and all the arguments that we have made in the other case apply as well.

Mr. BOUSTANY. Thank you.

Anybody else care to comment on this? Mr. Marques.

Mr. MARQUES. No, I would agree with that. I think Brazil can benefit from participating and being more engaged in some of those trade agreements more broadly. I think there has been a lot of progress in reducing the cost of doing business in Brazil, and I think that is a major component.

You know, the private sector continues to work with the government in making sure that Brazil will increase its productivity and efficiency in doing business, and this will allow, I think, Brazil to be more externally driven and participate more broadly in those kinds of trade agreements, but I think we are seeing a lot of progress in many fronts.

Mr. BOUSTANY. Thank you.

I see my time has expired. Thank you, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Boustany.

Mr. Kind is recognized for five minutes.

Mr. KIND. Thank you, Mr. Chairman, and I want to thank our witnesses for the testimony today. I think it is pretty self-evident that it is going to be important for the U.S. and Brazil to maintain a constructive, active working relationship if there is hope for continued economic growth and progress throughout the Western Hemisphere.

I know there has been a lot of focus so far in this hearing of some of the trade irritants that we have seen pop up in Brazil from higher tariffs to forced location. Some of my colleagues talked about agriculture, but Brazil has a few asks of us as well, when it comes to ethanol, when it comes to cotton subsidies, in particular.

I have introduced legislation here that would reform our domestic cotton subsidy program to get us out of the WTO box that we find ourselves in with Brazil. I think the average taxpayer back home would be astounded if they knew that because of our unwillingness or inability to reform our own cotton subsidy program within our farm bill, we are now subsidizing Brazil cotton producers to the tune of $150 million a year. This is crazy. This is nuts.

And we have a farm bill coming up. I will be offering an amendment that would change our domestic cotton program so we do come into compliance with WTO so we can end $150 million of basically blackmail payments to Brazil so they do not level sanctions against us because of that WTO case.

How much of an irritant—Mr. McLarty, let me start with you—is that cotton case between us and Brazil right now? And what practical steps do you think we can take right now in order to deal with it and get it off our plate?

Mr. McLARTY. Well, your feelings are understandable, and they came through loud and clear, and I certainly again identify with them from my own State perspective.

It is a matter of tension, and you are going to have some issues and tensions in trade, as you well know. But I think on the broader picture we have to comply with WTO, with our trade agreements and move forward here.

The key is I think leaving the agreement in place for the moment, but as you suggest and as you're earnestly trying to do, is to move forward with a comprehensive farm bill that puts this issue and others in a much better place, absolutely essential for us to do.

Mr. KIND. Mr. McLarty, let me ask you. Given what you have seen coming out of the Senate right now with the farm bill that they just reported out and what the House is working on, would that fix the cotton problem for us in its current form?

Mr. McLARTY. Well, I am not an expert on farm legislation, but I think it is essential to move forward, and I would hope it would, Congressman. I would hope it would. You are obviously working very, very diligently and earnestly to do that, and I commend you for it.

Mr. KIND. Let me ask you and the others on the panel here if you have an opinion, but obviously Brazil has not been from my perspective an honest broker in the lead they have taken in trying to represent the developing world in WTO discussions. Ambassador Azevedo now has taken over the directorship of WTO. That means he has got a different constituency, a much wider constituency that he has to answer to.

Does this provide some hope or an opportunity as far as what Brazil has historically done to the talks in WTO now that Ambassador Azevedo is the Director of it?

Mr. McLARTY. I will start and then defer to my other colleagues. I think it definitely does. I think that was in 2008 on the DOHA round that you're referring to. A lot has changed in both our countries and, indeed, the world economic landscape as I noted in my testimony. So I would very much hope that we would again move forward with agreements, and I think that Brazil actually can play a singular role in future discussions on the world trade front, and I had hoped that would be the case.

I think Brazil has changed, Congressman Kind. I think they have stepped on the world stage, and I think they recognize the responsibility there.

Mr. KIND. I hope you are right.

Anyone? Mr. Marques?

Mr. MARQUES. Yes, I would agree with Mr. McLarty. I think the appointment of Roberto Azevedo to be the new Director-General of WTO is a very important signal of, again, continuous progress of Brazil as a country in the direction of really being more open in terms of trade agreements and progressing in that sense.

So I do agree that it is absolutely in the right direction.

Mr. KIND. Okay. Thank you. Thank you all for your testimony today.

Thank you, Mr. Chairman. I yield back.

Chairman NUNES. Thank you, Mr. Kind.

Mr. Reichert is recognized for five minutes.

Mr. REICHERT. Thank you, Mr. Chairman, and thank all the witnesses for taking time from their busy schedules to be here today with us.

And I would like to follow up on the line of questioning that Mr. Kind just concluded with just to be a little bit more specific.

So it is great that we have Brazil's long time ambassador now as the Director-General of the World Trade Organization, and I heard the positive comments that you think that this appointment will be beneficial for Brazil moving toward WTO agreements, but just more specifically directed to the Government Procurement Act, what do you think our new direction will be and what do you propose that Brazil might do to push that along a little bit?

That is a stumbling block between the United States and Brazil as well. Anyone on the panel wish to address that?

So far Brazil has not signed onto the GPA agreement.

Mr. McLARTY. Well, I think in a general manner, it is very hopeful that Brazil will show more flexibility. That is what you are suggesting, and again, I think it is so essential that the private sector have a voice and an engagement with both the U.S. Government and with Brazil, and I think that can at least put these issues in a much more realistic perspective.

I would not make any predictions on these issues. I am not an expert on them, but I understand very much your concern. I do think that this is a new time and place from a global trading standpoint for both our countries, for both the U.S. and for Brazil, and that is what leads me to the hopeful nature that I noted.

But flexibility is required on a number of these issues.

Mr. REICHERT. Anyone else wish to comment? Mr. Marques, do you have a thought?

Mr. MARQUES. Yes, I would say that again, on behalf of the Council we see that improving supply chain integration is really crucial to our members as well. So we agree with that and would like to continue to push, you know, the agenda on that.

We have seen some progress with some of our members. The private sector continues to work together to be more efficient on that count, but we also need the government to demonstrate the action and commitment on that front.

We have seen some good wins from the Brazilian Government which we applaud. Brazil expressed delivery at the Istanbul convention, and so there are some examples that, again, I think the government and Brazil is actually showing more support and better integrating supply chain. So, again, I think the signs are very positive, but we need to continue to work diligently with the private sector and government continue to make inroads there.

Mr. REICHERT. Thank you.

Mr. Chairman, I would like to enter into the record a document that has been prepared by Donna Hrinak, who is the former U.S. Ambassador to Brazil and now the President of Boeing-Brazil, who stresses the importance of joint R&D currently being done in the aerospace sector.

Chairman NUNES. Without objection.

[The information follows: The Honorable Dave Reichert]

Statement for the Record
Submitted by
Donna Hrinak, President, Boeing Brazil

House Ways and Means Trade Subcommittee
Hearing on U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges
Wednesday, June 12, 2013

Thank you for the opportunity to offer this statement on the important issue of trade and investment relations between the United States and Brazil. I would also like to thank the Chairman and other members of the Subcommittee for taking the time to visit Brazil recently to gather firsthand information and insights about this key hemispheric partner for the United States.

The Father of Brazilian Diplomacy, the Baron of Rio Branco, who served as Brazil's Foreign Minister at the beginning of the 20th century, spoke often of the strategic importance and economic potential of the Western Hemisphere, which, he said, should be anchored by two great powers: the United States in the North and Brazil in the South. In this century, the increasingly dynamic relationship between our two countries is a testament to the foresight of that Brazilian statesman.

Mr. Chairman, Members of the Subcommittee: My own experience with Brazil began in 1984, when I was a U.S. Foreign Service officer assigned to the Consulate General in Sao Paulo. Brazil was then in the last of nearly 21 years of military rule, and the strong democratic vocation of the Brazilian people was evident, as they took to the streets in peaceful demonstrations to demand a return to democracy. During my three years in Sao Paulo, I witnessed the restoration of civilian government, but also shared the experience of serious economic dislocation. Annual inflation was near 250%, and the country struggled through a series of economic plans and new currencies intended to assert stability.

I left my first posting in Brazil in 1987, but was honored to return to the country in 2002, as U.S. Ambassador. I had not traveled to Brazil at all in the interim, and as I said frequently upon my return, I had come back to Brazil, but not to the same country. Democratic freedoms had been consolidated; a vibrant civil society had emerged. And while the country's economic achievements were many, perhaps most visibly, inflation had been reduced to a single digit.

Brazil had also opened its economy to the world, not fully, as we know, but in meaningful and sustainable ways. Tariffs were reduced, foreign direct investment encouraged, and sectors previously closed to outsiders, such as information technology, welcomed new stimuli from abroad.

During my time as Ambassador, I was privileged to witness the transition between two presidents, both of whom had fought actively for democracy and both of whom laid the foundation for Brazil's current economic progress: Presidents Fernando Henrique Cardoso and Luis Inacio Lula da Silva. I was also pleased to participate and contribute to the broadening and deepening of U.S.-Brazil relations.

An important part of my portfolio, and one I greatly relished, was promoting free trade between Brazil and the United States and U.S.-Brazilian partnership in discussions of a Free Trade Area of the Americas.

While those government-to-government negotiations on regional free trade did not prosper, they did have important collateral benefits, such as strengthening ties among private sector leaders in the hemisphere, including between leading industries and business organizations in Brazil and the United States.

Trade talks among governments are -- understandably, perhaps, but still too often – colored by other aspects of official relationships. When business people talk to other business people, they talk business. As the private sectors refined their roles as advisors to their governments on trade issues, they also identified new elements of their own common agenda. As then a target of their advocacy, I developed a new appreciation for how the private sector could contribute to state-to-state relations.

This is the perspective I bring to my current position as President of Boeing Brazil. In 2012, Boeing marked the 80th anniversary of doing business in Brazil, from the day we sold our first airplanes, 14 F-4B's, to the Government of Brazil in 1932. Boeing made its first commercial sale to Brazil's then flag carrier, Varig, in 1960, and today we are proud to list two Brazilian airlines, GOL and TAM, among our customers. Indeed, GOL flies the fifth largest fleet of Boeing 737's in the world.

Boeing today has offices in both Sao Paulo and Brasilia, and later this year, we will open the new site of our Research and Technology Center, Boeing's sixth such center outside the United States, in the technology park of Sao Jose dos Campos, in the state of Sao Paulo. As you will know, Sao Jose dos Campos is the heart of Brazil's aerospace industry and the home of aircraft manufacturer Embraer.

Boeing's collaboration with Embraer is a concrete example of that private sector initiative I saw from the Embassy vantage point. First, of course, we are business partners in both the defense sector and commercial aviation. In the past year, Boeing and Embraer have announced three important collaborations, including one in the area of runway safety.

Aerospace has long been a leading sector in U.S.-Brazil trade. In 2012, U.S. companies exported over $6 billion of aerospace products and parts to Brazil, up from less than $2 billion when I served as Ambassador. Still, even in 2002, the largest U.S. export to Brazil was airplane parts, and the largest Brazilian export to the United States was airplanes.

But beyond our commercial activities, Boeing and Embraer are business leaders in implementing the U.S.-Brazil Aviation Partnership, an agreement signed by Secretary of State Hillary Clinton and Brazilian Foreign Minister Antonio Patriota during President Rousseff's 2012 visit to Washington. The governments have established the framework, but the private sector makes the agreement real and relevant through specific initiatives in such areas as airport certification and air traffic management.

Boeing and Embraer are also partners in research. Just two days ago, our companies, along with public sector partner, FAPESP – the Research Foundation of the State of Sao Paulo – presented publicly the roadmap for establishment of a sustainable industry for aviation biofuel. The experience behind and vision for the aviation biofuel industry in both Brazil and the United States are an unbeatable combination in promoting cleaner, more efficient commercial aviation.

This brief discussion of Boeing's activities with Embraer demonstrates what we think is the best way for U.S. companies to operate in Brazil: by collaborating with Brazilian partners on projects that benefit both companies, both countries – and the world.

At the same time, our collaboration with Embraer is just one of several partnerships Boeing is developing in Brazil. We are also working with universities, including the University of Sao Paulo and the Federal University of Minas Gerais, on research in visual analytics and advanced and bio-materials for the aerospace sector. With the Brazilian Space Research Institute (INPE), we are exploring potential new benefits from remote sensing, and we have initiatives in flight sciences with the Department of Aerospace Science & Technology (DCTA) of the Brazilian Air Force, which is responsible for the country's air traffic control.

It is well known that Boeing also hopes to contribute to the U.S.-Brazil defense partnership. Boeing is one of three finalists, the only U.S. company, in the competition to sell advanced fighter aircraft to the Brazilian Air Force. We are convinced that our offer, the F-18 Super Hornet, is the best product at the best price, and that it meets Brazil's needs to project the defense power appropriate to the world's sixth largest economy. Eighty years after selling F-4B's to Brazil, Boeing would be proud to reaffirm and renew our defense cooperation with the F-18.

Boeing is also making an investment in Brazil's future – and our own – by sponsoring the Rousseff administration's Science without Borders (known in the U.S. as the Brazilian Scientific Mobility) program. This summer, Boeing will host 32 Brazilian Scientific Mobility students, all aerospace or aeronautical engineering majors, for a work-study program designed to familiarize them with the practical skills needed for careers in aerospace.

The United States and Brazil share a need to promote interest and education in all the STEM subjects – Science, Technology, Engineering and Math – to ensure our future work forces are prepared to compete in the 21st century economy. Increasingly, like science, talent also has no borders, and Boeing is in the vanguard of preparing and attracting global talent.

Clearly, from the Boeing perspective, there is much that is positive to say about the trade and investment relationship with Brazil. There are also areas where more can be done on both sides – and with support from the private sectors of both countries – to move the relationship closer to reaching its full potential. Fortunately, both Brazil and the United States are taking important steps to deal with some of the chronic issues that have been obstacles to progress.

In Brazil the government is beginning to address the serious concerns of inadequate infrastructure, which makes doing business difficult for Brazilian and U.S. business alike. A new law to deal with congestion in the seaports and new programs for rail and highway construction – which will cut transport times and costs and will offer opportunities for U.S. firms interested in investing in Brazil – will help companies' Brazil operations to become globally competitive beyond the factory gate.

In an area of particular interest to Boeing and our airline customers, Brazil also has identified 65 airports for privatization. This granting of airport operating concessions to domestic and international interests will make possible the modernization and expansion of the country's airports to accommodate the travel aspirations of the 40 million Brazilians who have recently joined the middle class and growing tourism between our countries.

At the same time, one issue illustrates how bottlenecks in the Brazilian bureaucracy keep the country from taking full advantage of decisions made by its leadership. Since 2008, Boeing and three airline partners have tried to obtain approval for our largest civilian cargo and passenger aircraft, the 747-800, to operate at Brazil's airports. Brazilian importers and exporters would both benefit from operations by this airplane, particularly as the country prepares to host the 2014 World Cup and 2016 Olympics. Yet, despite literally hundreds of meetings with Brazil's aviation regulatory agency, its airports operator, and the Secretariat of Civil Aviation, the 747-8, which currently is approved to operate at 372 airports around the world, cannot fly to even one destination in Brazil. Boeing, our customers and the Brazilian economy are all paying the price for lack of action.

Steps to boost the relationship are also important from the U.S. side. Last year's recession of the 56 cent per gallon tariff on Brazilian ethanol, for example, will facilitate greater cooperation in energy, just as shale gas makes the United States a more important energy producer and as Brazil begins to develop its ultra deep offshore oil deposits in the pre-salt areas. Creating a hemispheric energy partnership, with the United States and Brazil in the lead, is one of the most promising ways in which our bilateral cooperation can benefit the entire region.

Leadership from the United States and Brazil can also advance global free trade. Two thousand thirteen is a critical year for the World Trade Organization's Doha Development Agenda, as countries strive to make progress before the December 3-6 Ministerial Conference in Bali. A review of WTO history will make clear the important roles, both positive and negative, which Brazil and the U.S. have played in the 12 years since these negotiations began.

While much has changed in the world economy during that time, the private sector's need for a clear, consistent and contemporary global trade regime has remained constant. All our governments have a responsibility to provide that framework, and the United States and Brazil bring particular expertise, credibility and influence to this debate. Cooperation between Brazil and the U.S. is essential for success.

Mr. Chairman, Members of the Subcommittee: The rich history of U.S.-Brazil political, economic and commercial relations provides a solid foundation for our countries to ensure we take advantage of and create new opportunities for the good of our societies.

In 2012, I served as a member of the Council on Foreign Relations Task Force on Brazil. In our report, entitled Global Brazil and U.S. - Brazil Relations, we noted the need for a more mature partnership with Brazil. A strong trade and investment relationship between the United States and Brazil is clearly an essential element of that partnership. Boeing is proud to advance those relations in new, expanding, and exciting ways, and we thank the Subcommittee for the opportunity to discuss our activities and present our views.

Thank you.

Mr. REICHERT. I would also like to point out that there is another great partnership from Pacific Northwest, Washington State, specifically Pacifically Car and Foundry that has a great friendship and partnership with Brazil and also engaged in research and development opportunities there.

So, Mr. Marques, there is, I think you would agree and the panelists might agree and most everyone in here would probably agree, that research and development is an important aspect of trade, and there is great opportunities for both the United States and Brazil.

In this arena what opportunities specifically do you see rising between the United States and Brazil in the area of research and development?

Mr. MARQUES. Again, I think this is a very important point on the agenda. I think the regulatory agency in Brazil, ANVISA, still a young agency, but they're a global reference in terms of some of the technical capabilities, but we do believe that, again, especially in terms of IP, there is an opportunity to improve, to protect innovation and discovery and development, and that I think will serve both countries well.

It is a topic that it is priority also within the counsel to continue to work with the government and the regulated agencies in Brazil to progress with that and to make sure that the inventions are protected with the appropriate rights of IP protection.

Mr. REICHERT. My time has expired, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Reichert.

Mr. Roskam is recognized for five minutes.

Mr. ROSKAM. Thank you, Mr. Chairman, and witnesses, thanks for your time and your expertise today.

I want to shift gears a little bit and focus in on the relationship between Brazil and China. China is Brazil's number one trading partner, and there are some interesting statistics. Let me look down and cite them, but then come back, and I am interested in your reflection not so much on the numbers, but on the nature of the trade and how the nature of that trade brings questions forth.

So here it is in a nutshell. Brazil exported $41 billion in exports to China in 2012; imported 34 billion, whereas it exported 27 billion to the U.S. and imported over 32 billion.

More interesting though is this relationship between raw materials going out of Brazil, finished goods coming into Brazil, whereas my understanding of the relationship between Brazil and the U.S. is far more balanced, balanced in the totality.

What is the significance of that? Where are the opportunities for Brazil and the U.S. to work together vis-a-vis international standards, third party questions, just kind of open field running?

What is the significance of that for us as a committee, as we need to make decisions in U.S. policy going forward?

Mr. GLUSKI. I'm going to take it.

Basically not only Brazil, but all Latin America is much more, let us say, engaged with the U.S. economy and products for a long historical period. So when their economies grow, they are much more likely to draw in U.S. exports and also to make joint ventures with U.S. companies.

The relationship with China is much newer and much more focused, as you say, on exporting raw materials, whether it be soybeans or iron ore, for example, to China. So numerically that will predominate, but I think that given the greater similarities between the two economies' longstanding relationships, it is a different type of trade that they are having with the United States, and you also have longstanding relationships like Johnson & Johnson 80 years in Brazil, and lot of other U.S. companies as well. That makes a significant difference.

I think there is an opportunity also for the U.S. to attract more Brazilian investment going forward, and that would also help the relationship become a relationship where you have more equal interests from both sides in terms of the bilateral treaties, investment protection, et cetera.

Mr. ROSKAM. Thank you.

Mr. McLarty.

Mr. McLARTY. Well, I think you certainly raise some very important points, and I thought you did so in a particularly thoughtful and precise manner.

First of all, it underscores how increasingly our worlds and our economies are connected. I think on balance if handled properly, that is a positive. I think it will lift living standards if done properly. It will strengthen the middle classes. It will lead to more stability in emerging countries and emerging economies.

I do think it puts Brazil and the United States much more aligned than not in terms of encouraging China to be a responsible stakeholder in the multinational, multilateral organizations in terms of transparency, in terms of governance, in terms of currency.

So I think it aligns us in the proper way, but it also underscores, which I noted in my testimony; it also underscores some of the points that we have made about some of these issues of tension or disagreement. Clearly both countries are focused on job creation and understandably and commendably so, but part of that goes with increasing productivity in order to be competitive.

And so I think it has to go to lower barriers and complications of doing business where Brazil can be competitive and we certainly can keep our country competitive.

Mr. ROSKAM. That alignment that you just mentioned, is that naturally happening? No, no, that is not my question.

So there is the alignment that you mentioned. That is a natural alignment?

Mr. McLARTY. In my judgment.

Mr. ROSKAM. Are there things that now we need to do as policy makers to move forward on that, to take advantage of the alignment?

It is one thing to line up, and it is another thing to act.

Mr. McLARTY. Yes.

Mr. ROSKAM. Are there affirmative things that we need to do? And my time is dwindling. So why don't you be the last word?

Mr. McLARTY. All right. I will try to be brief to sum it up. I think you have got a strong running start at it today with this hearing. I mean, you have to engage in order to better understand where there is alignment and a natural mutuality of interest and what concrete steps can be taken. I think you will find the Brazilian Government and the private sector very receptive in that regard, Congressman.

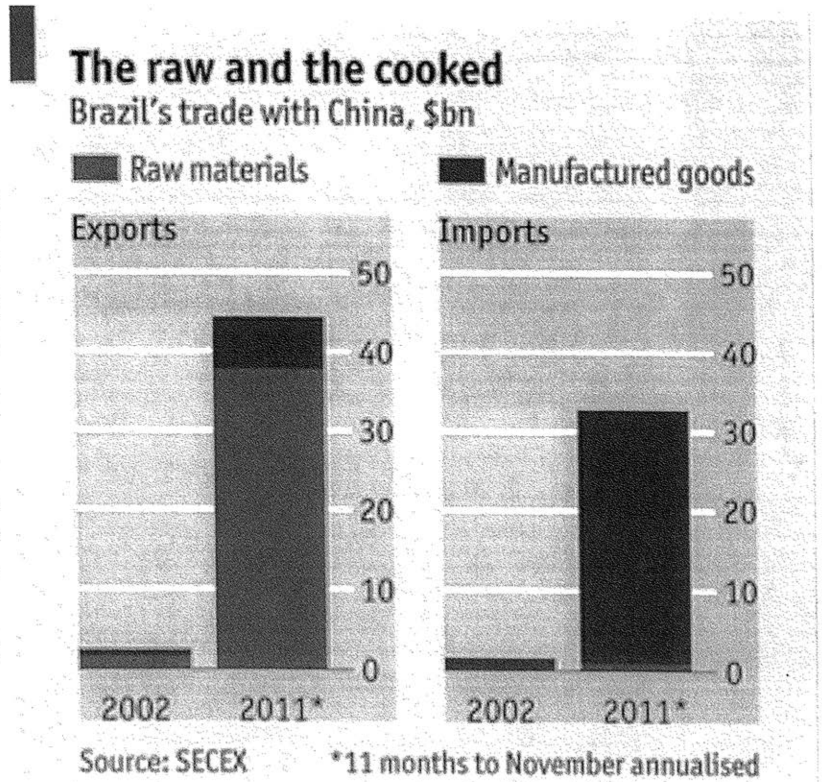
And, again, I think you have raised some very fundamental points.

Mr. ROSKAM. Thank you.

Mr. Chairman, I would like to enter into the record a graph from The Economist, the results of which I have basically cited.

Chairman NUNES. Without objection.

[The information follows: The Honorable Peter Roskam]



From "Brazil's Trade Policy: Seeking Protection — China Has Become Brazil's Biggest Economic Partner — and its most Difficult one," The Economist (Jan. 14, 2012)

Chairman NUNES. The gentleman's time has expired.

Mr. Larson is now recognized for five minutes.

Mr. LARSON. Thank you, Chairman Nunes and Ranking Member Rangel. I want to thank all of our witnesses for your expert testimony.

I would like to underscore a number of things that have been said by my colleagues, most notably Mr. Rangel and Mr. Buchanan, who underscore the incredible potential for a win-win situation here between the United States and Brazil. The great opportunity abounds.

Hailing from the State of Connecticut and in the aerospace industry as was also noted by Mr. Reichert as it relates to Embraer, we are deeply excited about this, and also the Chairman's most recent trip to Brazil, along with the Vice President.

And yet in these very difficult times we continue to see countries reflexively act in a protectionist manner, and so suffice it to say that that is a concern, and some of the monetary concerns that were raised by Brazil, especially we certainly deeply understand the concern as it relates to China, but not as it relates to the United States, a country that does not partake in that kind of activity.

So my question is, and it is kind of a follow-on to what Mr. Roskam was saying, Mr. McLarty. In terms of looking at this economic slowdown, what kind of effect do you think that that might have on our trade relations if Brazil is not able to quickly regain growth rates that it had over the past two decades?

Do you foresee the Brazilian Government implementing additional protectionist measures?

Mr. McLARTY. Congressman Larson, I think you have certainly raised the right concern. I think there is a natural tendency—we have seen it in our country—to be a bit more defensive or look a bit more inward in times of economic slowdown.

I would say that Brazil has benefitted with their increasingly outward looking stance and moving onto the global stage both in terms of exports and how they have conducted their affairs internally. So I would hope they would continue that and not raise but actually decrease any sources of tension and protectionism, although they will be looking for the proverbial two-way street in that regard.

Again, I go back to the point I tried to make earlier. It is essential in my judgment for Brazil not to only look at job creation, but also increased productivity. I think the private sector in both Brazil and the United States and other countries to engage with government agencies, engage with the private sectors are absolutely essential there.

So I would hope that would not be the case, bearing in mind Brazil has a history of very understandable deep concern about the rekindling of inflation that has led to high interest rates. So that will always be a part of their economic mindset, and I think appropriately so. And I think that has to be taken into account in the overall scheme of things.

But much as it is in our country, exports are key to some of the Brazil continued growth and job creation, and I think that goes with more liberalized trade not a more insular look.

Mr. GLUSKI. Recently Brazil has removed certain restrictions to capital inflows. So in terms of making the currency more market determined, I very much echo what has been said. I think if the economies are slowing down, what they actually need is to make sure to incentivize trade and to lower barriers rather than raise them at this point in time.

Mr. HUNDT. I would just comment that what was said earlier is absolutely true, but to gain productivity, I think the access to American technology and American exports is essential. Therefore, IP protection and, again, lowering the cost of tariffs and duties into the country will only help Brazil become more efficient, more effective in order to grow their own exports.

Mr. MARQUES. Yes, I would agree with what the panel said, but again, the point that I would make, which is very much in line to your concern, is what happens if the economy slows down growth because that can trigger more protectionism.

I think there is a very clear sense right now in the private sector in Brazil of the importance of fostering economic growth through exports as well, that just internal markets are not going to be enough, even though it is a very robust internal market.

So I think all of the industry is very committed to continue to drive an increased productivity and rely on exports to foster growth and create job demand. So I think, you know, there is a pressure coming from the private sector on this idea of trade and that potential to help us in that regard.

Mr. LARSON. My time has expired.

Chairman NUNES. Thank you Mr. Larson.

Ms. Jenkins is recognized for five minutes.

Ms. JENKINS. Thank you, Mr. Chairman, and I thank the panelists for their testimony this morning.

Brazil is the third largest beneficiary of the United States generalized system of preferences, which allows certain goods to be imported into the United States without duties. The program expires at the end of July, and I strongly support its extension because it allows U.S. businesses and consumers the access they need to maximize our competitiveness.

However, the same logic holds when it comes to Brazil's tariffs. High tariffs make it more difficult for Brazilian businesses to have access to the U.S. goods that they need to remain globally competitive. But Brazil seems to be taking a contradictory step in this regard. For example, Brazil increased 100 industrial tariffs last year and has plans to increase 100 more later this year. These increases are counterproductive.

At the same time Brazil has a promising X tariff program that should be expanded. X tariffs are the rough equivalent of the U.S. miscellaneous tariff bill through which Brazil reduces its tariffs on a specific set of imports that its businesses need.

I would be interested in anyone's thoughts on a couple of questions, but maybe directly primarily to Mr. Hundt.

How do you see Brazil's attitude toward tariffs in your sector?

Secondly, have you been hurt by the tariff increases or helped by the special tariff reductions?

And then finally, how would reduced tariffs in your exports impact Brazil's competitiveness?

Mr. Hundt, if you would maybe lead off.

Mr. HUNDT. Sure. Thank you.

As I said earlier, I will go back to those examples, and it is a very important issue for our company and certainly for a lot of U.S. manufacturers that the importance of the bilateral trade agreements, it really has to be bilateral.

But in this case, in our instance our experience is our landed cost of products exported from the U.S. to Brazil is an average of about 60 percent higher. So clearly that is a large percentage. It is an inhibitor to technology acceptance in countries, in Brazil sometimes, but more importantly, these are technologies that could help them become more productive. They are technologies that would help them advance their own economy, and in this case by lowering it is only going to create a wider adopting to technologies to help Brazil become more productive.

So we are quite optimistic. The timing is good. We feel that certainly the bilateral agreements are very, very important, and again, the net effect will be an increase in U.S. jobs as well.

Ms. JENKINS. Thank you.

Are there others that would like to respond?

[No response.]

Ms. JENKINS. No? All right. Thank you.

I yield back.

Chairman NUNES. Thank you, Ms. Jenkins.

Mr. Marchant is recognized for five minutes.

Mr. MARCHANT. Thank you, Mr. Chairman, and thank you for inviting me to go on our latest trade mission to Brazil. We had a whirlwind trip. We got to see the growth in Brazil. We got to see massive preparation for the World Cup and the Olympics and probably more infrastructure projects than I have seen anywhere except in Texas. We have a lot of infrastructure going in Texas.

A couple of questions have come from that. I understand that there are some restrictions on reinsurance and the liability insurance in Brazil. There is some issue about allowing foreign companies to come in and write reinsurance insurance.

Is there any response to that?

Mr. GLUSKI. AES is very capital intensive. We insure about $42 billion of assets around the world, including Brazil. We have not had any issues with reinsurance. We have a captive insurance program that we run from Arlington here in Virginia and that Brazil participates. So we really have not had that issue directly.

Mr. MARCHANT. Okay. Another question. We just in the news recently read about Brazil's abandoning its tax on foreign investment inflows. Apparently the worries about hot money have dissipated, and Brazil is now concentrating on, basically concerned about currency depreciation.

And what does this mean for U.S. investors? Has it changed the climate of the way U.S. investors, big investors, are looking at Brazil?

Mr. GLUSKI. Well, again, people like us who invest in infrastructure projects, we invest for 30 or 40 years. So basically I think I have not seen any. You know, that policy in and of itself is favorable in terms of people being able to make more investment, but really these are driven by fundamentals in your long-term views.

So I do not see it will have an impact more in terms of financing, but I do think that especially for large infrastructure projects we prefer to finance them in the local currency to avoid having liquidity issues due to devaluations, et cetera.

Mr. MARCHANT. We have a couple of companies in my area, Vermeer and Johnson & Johnson, that have significant operations in Brazil, and I would just like to solicit the comments of both of those companies on your experiences and your plans to expand there.

Mr. MARQUES. Yes. Thank you, thank you, Congressman, for the question.

Again, the thing I would like to add, I mean, our presence in Brazil with Johnson & Johnson is for more than 80 years. We always think more in terms of long term. Brazil is our second biggest consumer affiliated company outside of U.S. in terms of size. We do have one of our largest manufacturing facilities in Sao Jose Dos Campos that produces both pharmaceutical device and consumer products for the Brazilian market, and we also export as we also import to the Brazilian market a lot of products, some of those produced in the United States.

So we continue to be very bullish on the Brazil economy and, you know, in terms of our future growth in the country we continue to invest and be very committed to the market.

I would say that some of the short-term changes in the investor's market was already was said here. There is a high level of sensitivity on inflation, and the central bank continues to act pretty diligently in order to make sure that we contain continuing inflation under the parameters and the agreed target. So I think that is what we might see short term, but I do not think that changes our view long term.

Mr. MARCHANT. Okay. Mr. Hundt?

Mr. HUNDT. I think in our case we only see our investment ramping up in Brazil. Again, the markets we serve—infrastructure, energy, renewables, and agriculture—we believe are at the beginning stage of development. So our investment will increase, but really in the near term I would say the next five years we see primarily most of our business being generated out of manufacturing from the U.S.

In the future we may do more manufacturing in Brazil, but for our focus right now, it is really building out local distribution. It is building out the relationships and really extending into the markets that I described earlier.

So it is our top market that we are focused on, and again, I think normally for Vermeer, which is a medium size company, if we can help companies like ours navigate the opportunity in Brazil, much simpler, lower cost, make it more efficient to export. I think there are many companies like Vermeer that can come along and enjoy tremendous success in Brazil and have just a very, very exciting future.

Chairman NUNES. Thank you, Mr. Marchant.

Mr. Rangel is leaving, but I did want to announce that yesterday was his forth-third birthday. Happy Birthday, Mr. Rangel.

[Laughter and applause.]

Chairman NUNES. Mr. Young is recognized for five minutes.

Mr. YOUNG. Well, thank you, Chairman Nunes, Ranking Member Rangel, for allowing me to be a guest of this Subcommittee.

I represent a district in south central Indiana where Cummins has a major presence, and Cummins has been involved in trade and other economic activities in Brazil since the 1960s really, more robustly starting in the 1970s. They manufacture there; they distribute; they sell; and they export out of the United States into Brazil.

They are a major beneficiary of the generalized system of preferences, which I support and support its extension. And I hear in speaking with them that high tariffs remain a concern of theirs.

One of the issues that I do not believe has been addressed though as it pertains to them and so many others is the customs side of things, goods moving in and out of Brazil and the efficiencies related to that or lack thereof.

What sort of progress in terms of modernizing the customs system are being made, and how can we make a difference here at the federal level in terms of moving that effort forward.

I see potential practical reforms that could be made. I understand there is a ports reform bill that is currently very much on the radar, and that holds promise because it allows, as I understand it, more private investment to go into Brazil, to expand and modernize their port system.

But I will open this up to any members of the panel that want to speak to it. How can we improve the customs system there in Brazil?

Mr. MCLARTY. Well, I think you are absolutely right that the customs regime is simply not where I think it needs to be, and I think it is probably not where the Brazilians would like it to be. So I think the trend line is better, but there is much more work to be done.

You are right. The President did introduce a port bill to reform that that has passed. I do not believe by the Brazilian congress. But there is still work to be done in that area as well.

But I think when you get down to these essential—I will not say mundane—but essential blocking and tackling issues, all of this goes to making Brazil in my judgment more competitive and, therefore, more prosperous, and it presents opportunities for U.S. firms.

I think the private sector, again, through the CEO Forum, the U.S.-Brazil Business Council, other private sector initiatives can be singularly helpful. I am well aware and have had first-hand meetings and dealing with the Cummins people in Brazil, and they are highly professional. They have been there a long time, highly respected.

So I think you put your finger on a key important issue.

Mr. GLUSKI. We have some Cummins equipment in different places around the world. I would say both the U.S. and Brazil need to modernize their ports, and the U.S. certainly needs to do a lot more to improve its infrastructure.

So as a buyer of heavy equipment really what I care about the time that it takes to manufacture it and to get it on my facility. I would really recommend that in addition to besides everything that Ambassador McLarty said, it is also important to think about investment in U.S. ports and facilities to make us more competitive, and the same applies to Brazil.

In the case of Brazil, they have grown rapidly. Their trade has grown very rapidly, and in some cases their facilities are lagging behind.

Mr. HUNDT. We, too, are big user of Cummins engines. So we are quite familiar with that team, but I would say this is a major issue, and it leads to the complexity of doing business there, but in our case, our average of the time a machine leaves the U.S. to it arrives to our distributors is an average time of about four months. So clearly there is capital. There is time. There is a lot of just waste in the process.

So the more efficient we can be, certainly that is a big issue, and efficiency there would have a large impact on our industry.

Mr. MARQUES. Again, I would say that in general infrastructure is a major opportunity in Brazil ports, customs, and how, again, the private sector is a very important topic on our Brazil-U.S. Council with our members. I think there is an opportunity to share best practice. There is an opportunity for the private sector to invest more in upgrading the infrastructure in Brazil, and that will help, you know, the business to become more efficient and more competitive.

Mr. YOUNG. Well, thank you.

I, for the record, would agree with your assessment of the need here. Domestically also investment in our infrastructure, I think our inland waterway system, I would add that to the mix, our interstate highway system.

There is a sort of political science issue that sometimes creates a challenge, and that is the sequencing of these various things. Are we, in fact, going to deal with the largest spending programs of government in conjunction with these important investments?

So we will continue to have that dialogue. Thank you very much, and, Mr. Marques, perhaps in the future we could engage in a dialogue on regulatory reform. That is very important to Eli Lilly, which also has a major presence outside our district, and I know you have written on this issue.

I yield back. Thanks so much, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Young.

Mr. Neal is recognized for five minutes.

Mr. NEAL. Thank you, Mr. Chairman.

I thought you did a good job last week with the informal get-together that we had. I thought it was very helpful to the dialogue, and let me follow up on the questions that have been raised.

Perhaps, Mr. Marques, you could speak a bit about your experience in exporting to Brazil and what the hurdles are that you have faced. Frequently as we have done trade policy here in the more than two decades I have been on the committee, seldom do the trade agreements turn out to be as good as the supporters say nor as bad as the critics say, and there are a number of hurdles that we discover along the way that had not been anticipated in terms of implementation. So perhaps you could speak specifically to your experience.

Mr. MARQUES. Thank you, Congressman.

Our experience in selling to Brazil has been very successful. I would say, you know, some of the tariff and the hurdle rates are always a challenge, but I will tell you that one of the things that is more challenging is to make sure that we develop the products that the consumers in Brazil really want, and having that deeper understanding sometimes of what really is important and relevant for the Brazilian consumer, especially the emerging middle class, sometimes it is more challenging than the trade agreement.

So having that consumer insight and understanding the local markets and capturing that opportunity sometime require investments, R&D, and local talent to really make sure that we can develop products that can, you know, meet the Brazilian needs.

Mr. NEAL. Perhaps the other panelists could speak to the challenges that they see. I mean this is a very important part of the world for America, and your insight is important.

Mr. HUNDT. Sure, and again, in our case it is the complexity of doing business in Brazil, but also the landed cost with the tariffs, the duties.

I think, in summary, if we have a level playing field, we as Vermeer and as American manufacturers with innovation, with productivity, we are not afraid to compete against anybody as long as there is a level playing field. So if that can be engaged and clear the path, you know, we are bullish on the future of Brazil and anxious to complete and look forward to much success in the future.

Mr. NEAL. Doctor?

Mr. GLUSKI. We are basically in a non-tradable goods sector.

Mr. NEAL. All right.

Mr. GLUSKI. But we do obviously import capital goods, and I agree with my colleagues.

Mr. NEAL. Mr. McLarty.

Mr. McLARTY. Well, I certainly think you have got trade agreements and the dynamics surrounding them absolutely correct in your assessment of not quite as good or quite as bad.

Mr. NEAL. I remember being lobbied on some of them.

Mr. McLARTY. Yes, I think I remember that as well. It is good to see you again.

Mr. NEAL. Nice to see you.

Mr. McLARTY. No, I think my colleagues have really made the right points in terms of just the absolute necessity to streamline the ways that we do business. It will lift the standard of living in Brazil, and it will lift the standard of living in our country as well, and we surely need that in our middle class, as you know.

Mr. NEAL. Could any of you speak to the patents issues as it relates to the new Health Regulator? That would be of interest to the people of Massachusetts. I can assure you of that.

Mr. MARQUES. Again, it is one of the areas that is a high priority for the council working with the private sector, making sure that we can progress legislation in Brazil to protect intellectual property and protect, you know, discovery and innovation. It is something that we are seeing some progress with the congress in Brazil, progressing the agenda there. We are not where we need to be, but that is one topic that we will continue to push pretty aggressively.

Mr. NEAL. That will be very important, Mr. Chairman, to my constituency.

Thank you.

Chairman NUNES. Thank you, Mr. Neal.

I want to thank each of you for your testimony today and to help us think through how we can advance in a constructive way this bilateral relationship. I look forward to working with Mr. Rangel and Mr. Froman when he gets confirmed to try to have something prepared. It will be our goal to get something prepared before Ms. Rousseff arrives in the United States in the fall.

So I want to thank all four of you for your time and presence today. The record will be open until June 26th of 2013, and I urge all interested parties to submit statements to inform the Committee's consideration of the issues discussed today.

This hearing is now adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

Questions For The Record
[Public Submissions for the Record follows:]

Cargill

Cargill

Written Submission
Greg Page, Chairman and CEO of Cargill, Incorporated
Chair, Brazil-U.S. Business Council, U.S. Section

United States House of Representatives
Committee on Ways and Means
Trade Subcommittee

U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges
June 12, 2013

On behalf of the members of the U.S. Section of the Brazil-U.S. Business Council (BUSBC), I submit these comments in support of a deeper U.S.-Brazil economic and commercial partnership and offer recommendations to make meaningful progress. BUSBC member company Johnson & Johnson, represented by Roberto Marques, is also testifying on behalf of BUSBC as a "fellow" BUSBC board member.

The U.S. Section of BUSBC represents more than 100 of the top U.S. companies with businesses and investments in Brazil, representing sectors as diverse as aerospace, agribusiness, automotive, biofuels, electric and electronic equipment, pharmaceuticals, machinery and equipment, metallurgy, pulp and paper, oil and gas, and health products. BUSBC is the premier business advocacy organization dedicated to strengthening the economic, commercial and investment relationship between the United States and Brazil. Established in 1976, it is the oldest and largest bilateral private sector group and is composed of a U.S. and Brazilian section. The U.S. Section operates under the administrative aegis of the U.S. Chamber of Commerce and is chaired by Cargill, Incorporated.

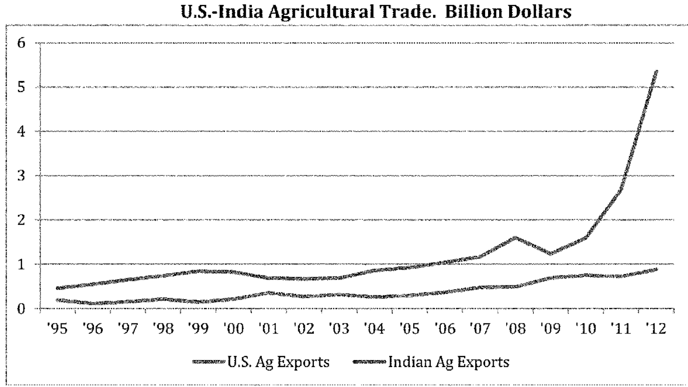
The United States and Brazil have much to celebrate. The growing U.S.-Brazil partnership has brought real gains for both countries and their private sectors. Rising two-way trade and investment demonstrates the vibrant state of U.S.-Brazil relations and the direction in which we are headed. Bilateral trade in goods and services reached the historic milestone of more than US$ 100 billion per year in 2011. Moreover, the combined foreign direct investment stock totaled more than $75 billion in 2012. In fact, for every three dollars invested in Brazil by U.S. companies, there was one dollar invested in the United States by Brazilian companies. This gap, much larger just a couple of years ago, continues to narrow as both private sectors increasingly pursue opportunities in Brazil and the United States.

As we look ahead, there are key areas where meaningful progress can be made to deepen the economic and commercial relationship: (1) the establishment of a working group to study the potential benefits of an all-encompassing U.S.-Brazil Bilateral Economic Partnership Agreement in the long term, (2) the formal launch of negotiations to a Bilateral Tax Treaty in the short term, and (3) the formal launch of the U.S.-Brazil Global Entry Pilot program in the short-term, with the longer-term goal of including Brazil in the U.S. Global Entry program with Brazil's reciprocation. These initiatives offer the best opportunities for meaningful progress and are the foundation for the BUSBC vision of a barrier-free bilateral economic and commercial relationship between both countries, which contributes to a lasting partnership with positive and decisive influence.

past the most important market access barriers for agriculture: tariffs and sanitary and phytosanitary measures.

Unfortunately, to date U.S. exports to India have been limited. U.S. agriculture exports to India in 2012 were almost $900 million (compared to $141 billion globally). While U.S. exports have more than tripled since 1995, U.S. exports lag India's export to the United States, which exceeded $5 billion in 2012 and increased ten-fold since 1995. Despite the economic fundamentals, which would suggest a strong U.S. surplus, the U.S. trade deficit in agriculture with India is growing.

U.S.-India Agricultural Trade. Billion Dollars



Customs data, from USDA/FAS/GATS (Agricultural Products)

The top U.S. export is almonds, followed by apples, soybean oil, and cotton. However, the value of these exports is marginal compare to global exports of these products.

U.S.-India Bilateral Trade.
Leading Agricultural Products, Million Dollars (2012)

	US Exports		India Exports
Almonds	314	Rubber	2,409
Apples	97	Cashews	279
Soybean oil	96	Essential oils	181
Cotton	73	Rice	139
Dried peas	59	Pepper	138
Essential oils	19	Spices	119
Dairy	18	Tea	63

Customs data, from USDA/FAS/GATS

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Subcommittee Chairman Devin Nunes
Honorable Charles Rangel, Ranking Member
United States House of Representatives
Committee on Ways and Means
Trade Subcommittee

Dear Honorable Sirs,

Please find attached Braskem America's written submission of record for the Hearing on the U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges to take place on Wednesday June 12, 2013. We are appreciative of the opportunity to share our submission with this Subcommittee and remain at your disposal should you wish to discuss these or any other matters with us in the future.

Our Sincere Best,

Nick Sprague
Legal & External Affairs
Braskem America

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United States House of Representatives
Committee on Ways and Means
Trade Subcommittee

Dear Honorable Members,

It is my honor to introduce to this prestigious Committee the Braskem and Odebrecht organizations and to share with you some of our experiences as Brazilian investors, service providers, and job creators in the United States. We applaud this Committee's initiative today and are gratified by the recognition of Brazil's role in the global economy and, in particular, the importance of the US-Brazil relationship. Our purpose in submitting this testimony to the Committee is to specifically address the first point on the Agenda, namely: "deepening and expanding the long-term investment relationship with Brazil," by providing the Committee with a personal testimonial as to the benefits of Brazilian Foreign Direct Investment ("FDI") in the United States.

Who We Are

Braskem is a global petrochemical leader, producing more than 35 billion pounds of thermoplastic resins and basic chemicals and generating revenues of over $20 billion dollars annually. Headquartered in Brazil, we have a commercial presence in more than 50 countries and an industrial presence that extends across Brazil, North America, and Europe. Braskem invests more than $100 million annually in innovation and technology and is the global leader in production of "Green Polyethylene"—a plastic feedstock made from ethanol and sold in significant quantities in the United States. Our commitment to sustainability was recognized by the New York Stock Exchange through our inclusion in the Dow Jones Sustainability Index Emerging Markets.

We are manufacturers, investors, and innovators—providing first class products and services to our clients and achieving health, safety, environmental and operational excellence. Our commitment to investment and innovation stems from the strength and long-term vision of our two primary shareholders: the Odebrecht Group and Petrobras, which together hold the vast majority of the voting capital of Braskem.

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Odebrecht is a diversified organization with sixteen different businesses operating in 5 continents, generating annual revenues in excess of $50 billion. With more than 180,000 team members worldwide, the Odebrecht Group focuses on providing sustainable solutions for infrastructure, water, energy, housing, industrial and food inputs in the communities it serves.

Petrobras is Brazil's state-owned energy company, a world leader in deep water drilling technology and the seventh largest energy company in the world. Operating in more than 25 countries, Petrobras is distinguished in its commitment to research and development, investment, and sustainability. The Petrobras Research Center is the largest in Latin America, and Petrobras' current investment plan portends $236 billion in investments between 2012 and 2016. Additionally, Petrobras' status as one of the world's leading sustainable corporations has also been recognized by the New York Stock Exchange through its inclusion in the Dow Jones Sustainability Index since 2006.

Beyond stimulating innovation and investment, Braskem's unique shareholder composition translates into long-term strategic vision for our businesses and investment decisions and allows us to explore and capitalize on many valuable synergies in and among our shareholders and affiliates, including feedstock supply arrangements with Petrobras, recycled industrial water provision from Odebrecht Environmental, and engineering, procurement & construction services from Odebrecht Construction, among others. As a result, a decision by Braskem to invest in a new region or country often stimulates additional investment and activity by our affiliates seeking opportunities for synergetic growth and expansion.

Braskem Investing, Serving, and Leading in the United States

Braskem is one of the leading Brazilian Foreign Direct Investors in the United States. Since 2010, we have directly invested over $600 Million in the US, highlighted by our acquisitions of Sunoco Chemicals and the Dow Chemical Company's polypropylene business. In some cases, our FDI has meant not just the influx of new capital and commercial activity to the US, but actual hope and relief for communities reeling from decades of manufacturing downsizing or relocations.

Such was the case in 2012 in Marcus Hook, Pennsylvania, where Braskem's acquisition of a raw material processing unit from Sunoco breathed new life into a once-thriving refinery

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community in Southeastern Pennsylvania whose other industrial activities had all but ground to a halt leaving the community disproportionately affected by unemployment and other economic and social ailments. Our preservation and creation of approximately 130 direct manufacturing jobs and dozens of indirect employment opportunities in the community has served as the basis for new strategic public/private efforts to revitalize the Marcus Hook refinery complex.

Our FDI is not the only significant investment resulting from our presence here in the United States. To cite one example, we recently partnered with Enterprise Products Partners to become the primary offtaker of a new 1.65 billion pound Propane Dehydrogenation Plant to be constructed in the US Gulf Coast that is generating approximately $1 billion of new capital investment and creating hundreds of accompanying construction and manufacturing jobs.

As a result of our FDI in the United States, Braskem America now has a geographic footprint that extends from the Northeast Corridor to the Texas Gulf Coast, with manufacturing locations in Texas, West Virginia, and Pennsylvania, and a state-of-the-art Technology and Research Center in Pittsburgh and corporate headquarters in Philadelphia. In just three years' time, Braskem has already become the United States' leader in polypropylene production, manufacturing more than 3 billion pounds per year of this important resin used in creating a multitude of plastics products that heavily impact our lives. With 610 full-time US employees and growing, our company's US revenues exceeded $2 billion dollars in 2012 as we continue to look for new growth and investment opportunities here, in particular those deriving from the new energy outlook brought about by the abundance of shale gas.

A History of Investment and Service

One of the reasons Braskem confidently chose to direct its resources and attention to the United States was due to the presence and experience of our controlling shareholder, Odebrecht. The Odebrecht Group's commitment to the United States dates back to 1990 when the engineering & construction division established its initial presence here in Florida and California. Over the course of the past 23 years, economic and community development, job creation, and partnership with the public and private sectors have been the central themes of the Odebrecht Group's presence in the United States.

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Odebrecht has delivered and continues to deliver billions of dollars in landmark projects to the communities where it operates, ranging from the Seven Oaks Dam in California, to the North and South Terminals at Miami International Airport, to the Grand Parkway in Houston—to mention only a few. Through these services, Odebrecht has created more than 11,000 jobs and awarded more than $800 million in subcontracts to small businesses nationwide.

Odebrecht's more than two decades of providing engineering and construction services in the United States has also enabled our Group to develop relationships of trust and confidence by serving local, state, and federal government clients. Odebrecht's partnership with the US Army Corps of Engineers is emblematic and tells a larger story about the potential for cooperation among the United States and the Brazilian private sector. Our relationship of trust with the Corps of Engineers stems from nearly two decades of service across the globe. In 1999, Odebrecht received the Corps' "Contractor of the Year" award and has been recognized on numerous occasions by the Corps for its outstanding performance and safety record. After successfully serving the Corps in Kuwait, Odebrecht was one of the select few contractors who accepted the Corps' request to provide services in Iraq immediately following Operation Iraqi Freedom. Similarly, Odebrecht immediately mobilized to New Orleans following Hurricane Katrina's devastation upon the Corps's request, and has played a leading role in building the city's new hurricane protection infrastructure since 2005. This partnering relationship between Odebrecht and the United States federal government demonstrates that attracting Brazilian business and investment to the US not only provides direct economic and job creation benefits, but also the potential for introducing new service providers of choice to local, state, and federal government.

Expanding the Odebrecht Group's Footprint

Following on Braskem and Odebrecht Construction's positive experiences of investing, serving, and leading in the United States, the Odebrecht Group has recently expanded its business footprint here through the arrival of Odebrecht Industrial (industrial services and construction), Odebrecht Environmental (water and wastewater solutions), Odebrecht Global Sourcing (procurement and logistics), and Odebrecht Oil & Gas (oil and gas industry related services). The Group's total US revenues now exceed $2.5 billion annually.

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Odebrecht Oil and Gas' decision to expand to the United States in 2011 is an interesting case of how attracting Brazilian business and investment can create jobs and grow the US economy in unconventional ways. Odebrecht Oil & Gas's office in Houston generates employment for high-end engineering professionals and approximately $100 million dollars in annual revenue (1) by providing project management services for an offshore oil platform in Angola, (2) through consulting services on the development and operation of offshore oil and gas platforms in Brazil, and (3) through procurement sourcing of US goods and services for these Angolan and Brazilian projects. This triangle of Brazilian investment, trade, and services between the United States, South America, and Africa reflects the increasingly global reach of Brazilian companies and the benefits that this reach can bring to the US economy.

This is one more example of the numerous ways in which Braskem and Odebrecht's presence in the United States are strengthening the US economy and creating benefits for our public and private sector partners and clients. On an annual basis, we spend hundreds of millions of dollars on US-based consultants, advisors, and service providers who engage on Braskem and Odebrecht projects throughout the world—many of which relationships were cultivated directly in the United States and later extended abroad as a result of our decision to invest here.

This generation of tangible and intangible wealth for our communities, clients, team members and shareholders stemming from our investment and activity in the United States has established our Group as a source of knowledge and confidence in helping to build commercial, cultural, and civic ties between the US and Brazil. We have been involved in the planning and execution of numerous trade and fact-finding missions to Brazil on behalf of our partners in the US, leading delegations ranging from political leaders to University presidents. In the past six months alone, we have played important roles in trade missions carried out by the Mayor of Los Angeles and the Governor of Pennsylvania. We have also showcased the United States to multiple Brazilian public and private sector stakeholders on similar missions, providing a first-hand testimonial as to our positive experiences as investors in the US. In the last two months alone, we have played an important role in bringing two Brazilian congressional, state government, and CEO delegations to Washington D.C. and the Marcellus shale region for fact-finding and investment missions surrounding shale gas exploration. We have found this deepening of relations between our Group and the United States to be a true win-win

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partnership, and serves as a model for the potential of increased Brazilian business and investment in the US. As we move forward, both Braskem and the Odebrecht Group continue to actively cultivate relationships of trust with our public and private-sector clients and partners, and are actively looking for ways to continue investing and strengthen our commercial ties here.

After 23 years of investing, serving, and leading in the United States, our Group's experience has demonstrated that Brazilian FDI brings overwhelmingly positive results for the US economy and for the communities in which we are present, in both traditional and novel ways. We recommend that this Committee continue to look favorably upon policies that encourage Brazilian investment and activity. In the meantime, we will continue to do our part in helping to grow the American economy, creating jobs, and generating wealth and prosperity for our clients, shareholders, team members, and local communities.

My warm thanks to the Committee for providing us this opportunity to share our success story with you.

Sincerely,

Fernando Musa

Fernando Musa
CEO
Braskem America

Amcham Brasil

AMCHAM Brasil
For a better business environment

Written Statement the American Chamber of Commerce in Brazil (Amcham-Brazil)

Hearing on "U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges"

House Ways and Means Subcommittee on Trade
June 12, 2013

Câmara Americana de Comércio
American Chamber of Commerce
BA DF GO MG MS PE PR RS SC SP

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THE AMCHAM-BRAZIL

Overview

The American Chamber of Commerce for Brazil, founded in 1919, is a not-for-profit organization that represents approximately 5,000 companies in the country. Ranked as the biggest American Chamber among the 115 in the world, it is also the largest bi-national association in Latin America. Over more than 90 years of existence, Amcham-Brazil has helped improve the business environment in Brazil and in the United States, contributing to enhance bilateral relations by promoting trade, investments and corporate citizenship through democracy, sustainability, intellectual property, entrepreneurship and innovation, as well as competitiveness.

Mission

The main purpose of Amcham-Brazil is to support the development of the business environment both in Brazil and in the United States, working to support democracy, free initiative, intellectual property, entrepreneurism, innovation, and the improvement and strengthening of institutions. Furthermore, Amcham-Brazil works to increase competitiveness in Brazil and to strengthen the US-Brazil bilateral relations.

Membership

Amcham-Brazil represents the interests of companies of several industry sectors, sizes and nationalities. There are approximately 5,000 member companies, from more than 40 nationalities, composing 72 of the 100 most valuable brands in the world.

National scope

Amcham-Brazil has 13 regional branches – Recife (PE), Salvador (BA), Brasília (DF), Goiânia (GO), Uberlândia (MG), Belo Horizonte (MG), Ribeirão Preto (SP), Campinas (SP), São Paulo (SP), Curitiba (PR), Porto Alegre (RS), Campo Grande (MS), Joinville (SC) – in 9 different states.

Task Forces and Committees

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In 2012, Amcham-Brazil hosted 150 committees with 2,045 speakers (CEO/director-level business leaders and governmental/diplomatic authorities from Brazil and the U.S.) to a total audience of 90,000 executive officers. The committees have a vast variety of themes, that fall under nine general programs: Brazil Competitiveness, Legislative and Juridical Impacts, Innovation, Sustainability, Energy, Business Management, Business in Growth, Brazil Development and Other Markets, US-Brazil Bilateral Agenda.

Scientific Mobility Program

Brazil Scientific Mobility Program is an initiative led by the Brazilian government that aims to promote the consolidation and expansion of science and technology, innovation, and competitiveness, through international mobility and the allocation of 101,000 exchange students in the best universities around the world. In order to support this program, Amcham-Brazil created collaborative foruns to facilitate the cooperation between the public and private sectors, in order to foster summer internships for the students. There has been 581 interns in U.S. companies since the start of the program, with 178 U.S. companies involved, and 150 U.S. universities with R&D internships.

AMCHAM-BRAZIL POLICY RECOMMENDATIONS

The American Chamber of Commerce for Brazil, aims to strengthen the relationship between Brazil and the United States, advocating for values such as free trade, educational cooperation, innovation, intellectual property and economic development. Amcham-Brazil is recognized for its role in facilitating the cooperation between the public and private sectors both in Brazil and in the United States.

- EDUCATION

Brazil Scientific Mobility Program (Science Without Borders)

The Scientific Mobility Program is an initiative by the Brazilian government that aims to provide 101,000 scholarships for Brazilians to study in the fields of Science, Technology, Engineering and Mathematics in the best universities around the world.

A key partner to this program, Amcham-Brazil created collaborative forums to facilitate the cooperation between the public and private sectors in order to foster summer internships for the students. In 2012, Amcham-Brazil signed a formal agreement with CNPq and CAPES (both managing agencies of the program) that solidified Amcham-Brazil's key role in engaging with the private sector, and since then there have been five Task Forces at

Amcham in São Paulo that mobilized more than 60 companies to offer internship opportunities for the students. As of April 2013, there had been 581 interns from the BSMP in the U.S., with 178 U.S. companies involved, and 150 U.S. universities providing R&D internships.

- TAXATION

Bilateral Tax Treaty (BTT)

We call on both countries to initiate negotiations toward a U.S.-Brazil Bilateral Tax Treaty. There has been significant progress in U.S.-Brazil tax cooperation, specifically due to: [1] the approval of Tax Information Exchange Agreement (TIEA) by the Brazilian Federal Senate, [2] the updates in the Brazilian transfer pricing legislation and [3] the pending Brazilian implementation agreement of the Foreign Account Tax Compliance Act (FATCA).We ask support for the Amcham-Brazil BTT proposal that has been positively assessed by several members of both governments.

- TRADE

Trade and Economic Cooperation (ATEC)

We also ask both countries to work on the Agreement on Trade and Economic Cooperation (ATEC) to further advance trade liberalization especially in the areas of procurement and localized barriers to trade. An ambitious work plan with set objectives should be set.

Free Trade Agreements (FTA)

Considering the momentum regarding tax agreements and trade relations, we encourage the US Government to resume conversation regarding a Free Trade Agreement (FTA) with the Brazilian Government. The Amcham-Brazil contributes to this dialogue by developing the rationale for the Brazilian government to work towards this goal.

- TRAVEL FACILITATION

Visa Waiver (VWP) and Global Entry

We urge the US Government to include Brazil in the Visa Waiver Program (VWP) and work together with the Brazilian government to launch U.S.-Brazil Global Entry Pilot Program.

- TRADE FACILITATION

Authorized Economic Operator

We also support the implementation of the Authorized Economic Operator (AEO) program, and request that the U.S. authorities support Brazil's Receita Federal in its implementation.

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We also urge you to support its pilot project, "Green Lane" the air cargo pilot program between Miami International Airport and Viracopos Airport.

- INFRASTRUCTURE

Infrastructure Investments

We also urge the United States Government to support and facilitate American infrastructure investments in Brazil. This unique moment offers massive opportunities for both Brazil and the United States.

- INTELLECTUAL PROPERTY

Patent Prosecution Highway Agreement

We urge you to formally support the U.S.-Brazil Patent Prosecution Highway Agreement, leveraging fast track patent examination procedures in both countries.

U.S.-Brazil Bilateral Relations

U.S.-Brazil relations now stand at an unprecedented level of convergence, dialogue and cooperation. Brazil is the United States' second major trading partner in the region after Mexico (two-way trade is around US$ 60 billion). It has consistently been one of the main destinations for U.S. FDI among developing countries. The U.S. direct investment in Brazil is superior to the other BRICs, representing 1.71% of the total stock of U.S. FDI flow, versus 1.31% in China, 0.59% in India, 0.23% in Russia.

There has been increased cooperation in various sectors and a remarkable increase in commercial relations between the countries. Since President Obama's visit to Brazil in 2011, 20 cooperation agreements and 8 bilateral dialogues were signed between the countries in areas such as aviation, commerce, technology, education and travel, fostering a healthy political and economic relationship.

DIPLOMATIC RELATIONS

Brazil and the U.S. share a vast commonality of values and goals: democracy, human rights, open market economies, environmental sustainability, non-proliferation, multilateral cooperation, the repudiation of fundamentalism, violence and terrorism. Unlike the other BRICs, Brazil lives in total peace with its neighbors and is a highly homogeneous culture. It is a very successful melting pot with only one language spoken by almost 200 million people and no ethnic or religious tensions whatsoever. The current challenges in decisive issues such as the economy, world finance, climate change, security and energy tend to bring Brazil and the U.S. ever closer together. The sound and diverse basis which currently exist allow for a new leap forward in bilateral relations.

Relations between both countries have consistently become stronger during the last few years. In 2011, U.S. President Barack Obama visited Brazil. President Dilma Rousseff went to the U.S. in 2012 and will be returning for an official visit in October 2013: clear indications of the political and commercial importance of this relationship. The last State visit from a Brazilian President was 18 years ago, led by President Fernando Henrique Cardoso. Such encounters determine the tone of the dialogue between both countries, improving diplomatic ties which allow the discussion on a double-taxation treaty, trade agreements and other issues of cooperation to be rekindled.

TRADE

Since the beginning of the 21st century, the US-Brazil trade grew 120%, reaching around US$ 60 billion in 2013. During this period, it has been marked by several characteristics:

> *[1] The volume of trade between United States and Brazil grew exponentially, with increasing surplus for the US in the trade balance;*

Brazil diversified its economic relations, and consequently, exported less to the United States. Nonetheless, the volume of trade between the countries is still high since Brazil increased its imports from the U.S. – mostly products such as fuel oils, engines and turbines for aviation, coal, medicine and instruments for measuring and machinery.

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(in US$ billions)

Source: Secex. (*) 2013, accumulated in 12 months until May.

[2] The United States lost its place as Brazil's main economic partner, but remains as an essential partner for the Brazilian economy;

Although it lost its status as Brazil's main economic partner to China, the United States still remains as a key partner for Brazil. In the beginning of 2013, China represented 16.5% of the total Brazilian trade, while the U.S. came second with a steady 12.4%. It is important to note the difference between Brazil's relationship with the U.S. and with China. Trade flows with its American partner involves a wide array of products, while trade with China is composed essentially exporting commodities (77% of exports are iron ore, soybeans, and crude oil) and importing consumer goods.

[3] There have been several successful resolutions of trade issues between the countries;

There have been significant advances regarding trade issues between Brazil and the United States in the last three (3) years.

- Framework Agreement – established the next steps to reach a final solution of the Cotton Dispute and avoided a WTO-approved retaliation from the Brazilian government;
- Elimination of U.S. tariffs to import Brazilian ethanol;
- Resolution of the orange juice dispute – U.S. antidumping of Brazilian orange juice was considered illegal by WTO and a mutual agreement was reached;

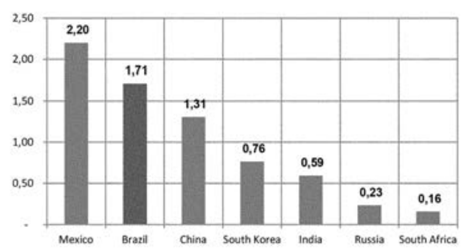
- Brazilian pork to U.S. – pork from the state of Santa Catarina was recognized as free from foot and mouth disease;
- Recognition of Cachaça & Tennessee Whisky – cachaça was recognized as an exclusive Brazilian product, and the Tennessee Whisky as an exclusive U.S. product;

INVESTMENTS

Considering the current economic scenario, Brazil and the United States face a unique opportunity to work together in establishing a path to boost both economies. Brazil is in dire need of infrastructure developments that may be addressed by U.S. companies through investments and benchmark.

[1] In terms of total stock of U.S. FDI, Brazil ranks first in the BRICs – China, India, Russia, South Africa – and stays ahead of most developing nations.

U.S. FDI - Countries - in % of total stock (2011)
Stock in 2011 = US$ 4,16 trillion



Source: US Bureau of Economic Analysis

As the largest democracy in Latin America, Brazil offers vast opportunities for investments. There has been an unprecedented growth in U.S. Foreign Direct Investments (FDI) flows to Brazil in the last decade. While U.S. inflows to Brazil in 2007 were US$ 5.6 billion, they reached US$ 10.3 billion in 2011, decreasing to US$7.9 billion in 2012. In counterpart, Brazilian FDI in the United States accounted for US$492 million in 2007, peaking at US$3.7 billion in 2011 but suffering a significant reduction (US$ -598 million) in 2012. Despite the disappointing flow in 2012 due to economic instabilities in both countries, the percentage of investment flows are greater than prior to the crisis in 2009.

Nonetheless, US investments in Brazil have room for growth:

- Brazil's participation in the global GDP is 3.5%, which proportionally would mean an ideal 20% increase in US investments (US$ 12 billion/yr).
- Discounting the US GDP´s participation in the global GDP, Brazil represents 4.5% of this total. If it were proportional to Brazil´s participation in the global GDP, US investments in Brazil should be of US$17.9 billion (80% greater).

Foreign Direct Investment
(millions of dollars)

Year	US to Brazil		Brazil to US	
	US$ mi	% of total	US$ mi	% of total
2007	5.585	1,42	492	0,23
2008	3.825	1,24	278	0,09
2009	3.500	1,22	-1.539	-1,07
2010	9.643	3,47	2.718	1,37
2011	10.260	2,65	3.704	1,66
2012	7.942	2,16	-598	-0,37
2013	1.919	2,05	234	1,01

Source: US Bureau of Economic Analysis

The strength of investment flows between the countries, demonstrate the solidity of this relationship and the opportunities that remain to be explored. As the Brazilian market matures, transnational companies develop and increase their investments abroad. Companies such as Petrobras, Vale, Votorantim, Gerdau, Odebrecht have expanded to the United States, establishing industrial facilities and creating jobs. In 2011, several Brazilian companies announced important investments in the United States. Among them are Braskem (US$ 4 billion – expanding 3 of their US facilities), Santana Textiles (opening new facility, creating 800 jobs until its completion), and Gerdau (US$ 347 million). In 2011, U.S. subsidiaries of Brazilian-owned firms employed 39,000 U.S. workers.

"Comprehensive Study of the Brazilian Wine Market"

Conducted by JBC International
On Behalf of Wine Institute

The Major Markets

The Winegrowing Regions

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Brazilian Wine Market Report

Date: June 2011

EMP Project Report #E09MXBR001

Brazil – Wine "Comprehensive Study of Market Potential, Infrastructure, and Regulatory Policy for U.S. Wine Exports to Brazil"

Report Highlights:
Brazil provides both tremendous opportunities and challenges for U.S. wine exporters. Historically wine consumption per capita trails that of other beverage alcohol. The recent economic expansion has developed a strong middle class more interested in wine. An emergent domestic wine industry is introducing more Brazilians to wine varieties through greater distribution and promotion. The neighboring wine producers, Chile and Argentina, are also enjoying sales increases demonstrating the appetite of the new wine consumer for *New World* wines. The distribution and retailing channels are in place in the main population centers although still often cumbersome and inefficient. The complex panoply of import regulations and high taxes are not unlike those of other emerging markets such as India, China and Russia. As Brazil continues to develop its international economy, now the 7th largest in the world, it is investing in the infrastructure to improve its capacity to trade internationally. With the hosting of the 2014 FIFA World Cup and the 2016 Olympics, and following the Chinese example of hosting the 2008 Olympics, the Brazilian government must insure that its capacity and infrastructure will meet the demands of those events. Brazilian goods and services industries must be ready to accommodate over 1 million visitors for those two events. While many impediments to U.S. wine exports remain, the country with a population of over 200 million and half of those with disposable income presents a vast and largely untapped market for U.S. winemakers.

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Executive Summary

As a member of the BRIC countries, Brazil is a target market for increasing U.S. wine exports. BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a similar stage of newly advanced economic development. The acronym has come into widespread use as a symbol of the shift in global economic power away from the developed G7 economies towards the developing world. The BRIC economies are promising engines of global economic growth and development. For the first time, helped along by the "Great Recession," consumers from the BRIC emerging markets are outspending U.S. consumers. With real wages on the rise and middle classes forming, emerging market consumers now account for 34 percent of global consumption versus 27 percent for their U.S. counterparts. Families around the developing world now have disposable income. Instead of saving their newfound wealth, they are increasingly spending and putting money back into the local economy.

A U.S.-based multinational such as Coca-Cola generates three-quarters of its sales overseas and already reflects the new reality. Revenues are booming for Coke in places like China and Brazil. For Brazil, Claudia Penteado of *AdvertisingAge* explains: "Much of Brazil's explosive growth is being fueled by an emerging lower middle class that has grown to 95.4 million people. As they snap up cars, cell phones and new homes, this group is quickly becoming a prime target for marketers. The group, called the Class C, earns between $600 and $2,600 a month and, through upward mobility in a growing economy, has become Brazil's largest consumer group in a population of 200 million people."

Recent data on BRIC countries' consumer spending habits reveal interesting insights about consumer behavior and priorities in emerging markets. Brazilians put a higher priority on living for the present by devoting a considerably larger share of income to discretionary spending. Brazilians report saving a relatively modest 10 percent, the lowest level of the four BRIC countries.

Per capita wine consumption lags considerably behind its neighbors Argentina and Chile. Wine has not been the alcoholic beverage of choice for Brazilian consumers. Those preferences are beginning to change with the new found disposable income of the emerging middle class who are willing to try new products, including wine. The elements are in place for significant growth in wine consumption over the next ten years.

The Brazilian market has been difficult to penetrate for all consumer goods. Previous government policy has supported exports and restricted imports to maintain and increase its foreign exchange. With the new-found wealth and balance of payments surplus those policies are changing. While still difficult to navigate, the labyrinth of import regulations, congestion in customs clearance processes and multiple taxes have become more transparent. This report describes many of those challenges and provides advice to achieve compliance.

Hosting of the 2014 FIFA World Cup and the 2016 Olympics will bring tens of thousands of foreign visitors to Brazil's event venues. Such events engender a social environment conducive to on-premise wine consumption. As described in this study, the distribution and consumption patterns of wine are also evolving for the benefit of sales. More retail outlets are growing their listings with a wider selection including *New World* such as those from the United States. Mass retailers like Wal-Mart and Carrefour are becoming significant opportunities for the sale of imported wine.

Brazil is still a developing country. Lack of capacity, corruption and legacy policies must be carefully considered. President Obama's recent visit and the priority the U.S. has devoted to its relationship with Brazil should assist in limiting the negative images and difficulties of the past. Brazil is a market that should be seriously considered for any winery looking to expand its export portfolio.

Project Background

In October 2009, JBC International—as Wine Institute's International Trade Counsel undertook to execute a U.S. Department of Agriculture, Emerging Markets Project (USDA-EMP) titled #E09MXBR001, a "Comprehensive Survey of the Brazilian Wine Market." This project represents a collaborative effort between Wine Institute and USDA-EMP that was designed to address the interest voiced by many Californian wineries to understand and identify strategies for expanding business opportunities into the BRIC countries, Brazil, Russia, India and China. JBC has completed previous studies of India and Russia.

The prime objective and focus of this study has been to provide practical information needed to develop a strategy for market entry, one which exposes the risks, provides a guide to developing that strategy and outlines the potential rewards for U.S. wine exports to Brazil. This report serves as a critical educational resource for U.S. companies by:

1. Providing detailed information concerning:
    - The economic environment for consumers to purchase wine;
    - The regulatory environment for wines in Brazil;
    - The existing trade barriers restricting wine imports from the United States; and,
    - The identification of the challenges and strategies for entering the market and selling wines in Brazil.
2. Forecasting developments in Brazil's wine market, supply chain and distribution network and trade activities; and,
3. Reporting on where the market opportunities exist for imported wine by specific market, supply chain, importer and distributor throughout the country.

The State of the Brazilian Economy

A combination of increased domestic and foreign demand for Brazilian products led to considerable growth in the Brazilian economy since the early 2000s. While the Brazilian government has traditionally had problems with inflation, President Dilma Rousseff is committed to inflation targeting by the Central Bank. Under Rousseff, the government has focused on fiscal restraint, a floating exchange rate and adhered to a policy for sustainable growth through foreign trade. This has led to significant improvements in the stability of

Brazil's economy. Brazil has paid off all debt to the International Monetary Fund, which in 2005 totaled $15.5 million. The Real has gained 40 percent against the US dollar since 2009, amid huge economic growth and a rise in foreign investment.

Brazil experienced two quarters of recession beginning in the latter half of the economic crisis and is considered one of the fastest economies to recover due to high investor and consumer confidence. Heavy involvement in international trade has made Brazil a leading economy in South America. Domestic consumption has been growing as wages and access to credit have improved. The Brazilian labor force has seen an increase and in 2010 ranks six in the world with 103.6 million working citizens.

"The 2010 growth rates demonstrate that the Brazilian economy is growing at a significant and sustainable pace, which supports the country's plans for long-term investment projects," finance minister Guido Mantega said. "We expect GDP to grow around 4.5 to 5.0 percent in 2011, a rate that would be sustainable and generate no inflationary pressures," he added. Growth was led by industry which saw an expansion of 10.1 percent, agriculture growing 6.5 percent, and the services sector, which saw growth of 5.4 percent. Brazil's GDP outstripped Mexico's. Brazil's Gross National Income (GNI) per capita in 2009 was $8,070 USD[1].

Population Indicators *- Brazil currently has the 5th largest population in the world with 203,429,773 citizens. The population between 15-64 years is 66.8 percent, with a median age of 28.9. Currently, Brazil's drinking age is 18, which proves a sizable market for alcohol. There are more females than males: 98 percent male/female ratio. Brazil's population is 74 percent Roman Catholic, and 86 percent of the population is located in urban areas.[1] A study conducted by the Brazilian Wine Institute (IBRAVIN) shows demand for New World wines is growing with the consumer age group of 40 and above. Such persons are interested in purchasing higher quality wines they read about or are presented in the media.*

Industries

Brazil's largest industries are textiles, shoes, chemicals, cement, lumber, iron ore, steel, aircraft, motor vehicles and other machinery and equipment, in that order. The industrial production growth rate was 11.5 percent for 2010. Brazil's main agricultural production includes: meat and by-products, coffee, soybeans, wheat, rice, corn, sugarcane, cocoa and citrus. Brazil is the 9th largest oil producer in the world and the 7th largest consumer. Oil exports reached over 570,100 bbl/day[2] in 2010.

A quick economic recovery can be attributed to Brazil's well-developed industry sectors. The breakdown of Brazil's Gross Domestic Product by composition sector is as follows: agriculture: 6.1 percent; industry: 26.4 percent; services: 67.5 percent. The Brazilian Food Processors' Association (ABIA) announced food and beverage industries of Brazil made up 85 percent and 15 percent of the $173 billion (USD) total net revenue in 2009, respectively. ABIA estimated a 5.3 percent volume increase in 2010 with 4.0 to 4.5 percent growth estimates per year over the next five years. This growth estimate is above the 3.3 percent average for the past ten years. The food processing industry consists of 38,500 companies including Nestle, Kraft, Unilever, etc.

[1] *Doing Business 2011 in Brazil*, The World Bank
[2] https://www.cia.gov/library/publications/the-world-factbook/geos/br.html

Infrastructure

As host to the 2014 FIFA World Cup and the 2016 Summer Olympics, Brazil has seen its infrastructure under constant scrutiny in recent years. Brazil has 4,000 airports, the second most in the world behind only the United States. Brazil also has 28,857 km of railways (10^{th} in the world), 1,751,868 km of roads (4^{th} in the world) and 50,000 km of waterways (3rd in the world). While these statistics appear promising, much of the current infrastructure is underdeveloped or poorly maintained. For example, 82 percent of its roads are unpaved, many port facilities are outdated and many of the airports are too small or too crowded for business. All of these factors increase transportation costs. While the infrastructure in the less developed center of the country is insufficient because it is underdeveloped, the infrastructure in the more populated cities is inadequate because it is overcrowded.

In 2007, the Brazilian government took on an accelerated growth project, PAC, to increase the economic welfare of the country and to develop the infrastructure to address the current problems, in preparation for the upcoming games and the future increase in commerce and tourism. This has put infrastructure on the forefront of Brazilian politics. The program will invest significant resources in seaports, airports, roads and railways. The program should drastically facilitate the movement of goods throughout the country in the upcoming years.

The major ports and terminals of Brazil are Guaiba, Ilha Grande, Paranagua, Rio Grande, Santos, Sao Sebastiao, Salvador, and Tubarao. Santon, the main port of São Paulo, is the largest port in South America. The largest airport in Brazil is Guarulhos International in São Paulo.

Strategy for Market Entry

Research the Market

Using this report and relevant contacts (in both the U.S. and Brazil) as initial resources, prospective exporters can make informed decisions about export opportunities to Brazil. Members of the Wine Institute international program can contact that department for further information on the market and opportunities to participate in trade shows. Members of WineAmerica can contact their offices and the authors of this study to further investigate market opportunities. Likewise, members of the California Association of Winegrape Growers, Winegrape Growers of America, and the general public can contact JBC International and other entities listed in the "Relevant Contacts" section of this study.

Find an Importer/Distributor

The choice of which importer and distributor to work with in Brazil is a crucial decision for U.S. wineries and exporters, since these agents will function as product line representatives and facilitate many of the market intricacies, such as navigating the regulatory import requirements and distribution chains. Depending on the agent and the expectations of the winery, it can assist in marketing the product and ensuring its quality integrity. Many of the importers in the "Brazilian Wine Importers" section found at the end of this report are also distributors with either a wine boutique or a retail store location.

Arrange Market Strategy and Fulfill Compliance Needs

U.S. wineries that are successful in exports usually take one to two trips to the target country before making sales. The first visit is used to research and develop strategies for accessing the target markets, whether regional or sector-based (hotels, restaurants or retail). The same visit can be used to meet with importers in order to evaluate their operations before making a decision on whom to approach with a potential agreement. If necessary, the exporter will travel back a second time to finalize the arrangements with the selected importer/distributor and ensure that both they and the importer/distributor are ready to do business together. This step is oftentimes needed to ensure that all regulatory approval issues and import processes are addressed before orders can be solicited and subsequently fulfilled.

Continue Market Promotion and Research

The growing market opportunities in Brazil for U.S. wine exporters are primarily in the South and Southeast regions of Rio Grande do Sul and São Paulo; also major production regions. For wineries that are members of the Wine Institute International Program (based in San Francisco, CA), they can coordinate trade visits and market promotion with a group of participants. Additionally, representatives of USDA's Foreign Agricultural Service (FAS) in Brazil share a common mission to promote trade with the United States. Representatives of USDA's Office of Agricultural Affairs (OAA), headquartered at the U.S. Embassy in Brasília as well as those of USDA's Agricultural Trade Office (ATO) at the U.S. Consulate General in São Paulo can offer free assistance with understanding the market and identifying future business opportunities. The FAS representatives can help U.S. wine exporters by supplying them with up-to-date market information, importer lists, and distributor data, as well as by endorsing U.S. Pavilions at trade shows and organizing various marketing events. The U.S. Alcohol and Tobacco Tax and Trade Bureau (TTB) has an International Trade Division and website (www.ttb.gov) that can similarly assist U.S. wineries and exporters with market information and regulatory compliance issues.

Potential Risks

There are several risks present when attempting to enter the Brazilian marketplace. These include:

a) Uncertainty of government regulations. Over the past two years, the Brazilian Government has issued multiple regulations concerning wine producer registration, labeling and production processes. Most are implemented without advance notice and in the case of the production processes; no final rules have been published.
b) Domestic and imported wine competition. Brazil

NOTE: AS OF THE PREPARATION OF THIS REPORT, REGULATIONS CONCERNING WINEMAKING PRACTICES WERE BEING REVISED. NO FINAL RULE ON SUCH PRACTICES HAS BEEN PUBLISHED BY THE BRAZILIAN GOVERNMENT. THIS REPORT WAS DELAYED FOR SIX MONTHS EXPECTING NEW RULES TO BE AVAILABLE. THE AUTHORS RECOMMEND PRIOR TO SHIPMENT OF WINE TO BRAZIL THAT THE EXPORTER VERIFY WHAT REGULATIONS ARE IN PLACE.

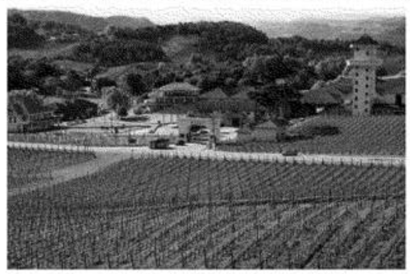
currently supplies much of the wine consumed within the country. The remainder is split between Chile and Argentina both enjoying trade tariff preferences and the European Union that subsidizes exports and production.

c) Customs inconsistencies. As noted later in this report there are many border formalities necessary for the importation of goods. Those formalities are not consistently administered by the different ports of entry. It is recommended that an advanced ruling be requested from customs if the importer is not confident as to the classification, value and tax treatment of the wine.
d) Other potential risks include current issues with contraband wine products that cross the border illegally, especially along the Southern border with Paraguay. These products reach the market at an unfair advantage; with costs lower than other importers can match.
e) Potential new legislation to control alcohol abuse is also being considered.

Geography and Domestic Wine Production

Climate and Topography

It is in the southern region of Brazil, with high temperatures during the day and cool low temperatures at night that is responsible for the quality and wide variety of grapes. Primarily, grape and wine production are centered in the Serra Gaucho Mountains located parallel 29° with average temperatures between 12°C in the winter months and 22°C during the summer. These mountains include the sub-region of Vale dos Vinhedos, Brazil's first Geographical Indication. Production marches down from the mountains to the southern valleys. The southernmost state of Rio Grande do Sul produces over 55 percent of national grape production. Other well known wine producing regions of Brazil include the states of São Paulo, Paraná, Santa Catarina, Pernambuco and newly discovered Minas Gerais.



Brazilian Winery Miolo, photo by Lethaargic/Flickr

Vale do São Francisco

The tropical state of Vale do São Francisco resides at 9° south latitude and with its dry climate makes it the only wine producing region requiring irrigation. The alkaline soil along with the climate conditions produces low yield grapes with high sugar levels. Producers in this region can harvest grapes two times a year.

WINE GRAPE PRODUCTION AREAS

Source: Brazilian Wine Institute (IBRAVIN)

The subtropical southern regions presents prime viticulture climate. Brazil's high quality sparkling wines are a result of the appropriate soil and weather patterns. However, wide climatic variations in grape producing regions caused more than a 15 percent decrease in overall grape production volume between the years of 2007 and 2009 and another 3.74 percent decrease in 2010.

Northern Region Potential

According to the Brazilian Agriculture Research Center (EMPRAPA), there is high climatic potential for grape production in the northeast region of Brazil. Fine table grapes were introduced in the 20th Century by the Italians and grown in the northeast Vale do São Francisco. Tonietto & Carbonneau[3] developed the Multicriteria Climatic Classification System (MCC System) on three regions of the northeast state of Minas Gerais over the course of two production cycles: October to March (spring-summer) and April to September (autumn-winter). The results showed all three regions to present unlimited grape-growing possibilities. The autumn-winter period presented two of the regions as moderately dry, warm and with temperate nights and the third region's climatic condition as sub-humid, temperate and with cool nights. It would be no surprise to see a substantial growth in grape production in northern Brazil.

[3] TONIETTO, J.; CARBONNEAU, A. A multi-criteria climatic classification system for grape-growing regions worldwide. Agricultural and Forest Meteorology, Amsterdam, v.124, p.81-97, 2004.

Government Production Policy

Brazil is fervently looking to wine production as a cash crop for their agriculture sector. According to the Brazilian Institute of Geography and Statistics (IBGE) 2010 data, total vineyards planted in Brazil reached 83.718 hectares in 2010 up from 82.584 hectares in 2009. In 1875 Bento Gonçalves, a town in Rio Grande do Sul, received Italian immigrants producing mostly American and hybrid grapes, more robust than *vinfera* varieties. The Italian arrival marked the beginning of expansion for Brazil's Wine Industry. Today, Bento Gonçalves is considered the "Wine Capital of Brazil" primarily producing Cabernet Sauvignon, Cabernet Franc, Sauvignon Blanc and Merlot. In recent years, wine production in Brazil has generated greater wealth and employment, with the increase in grape growers and large wine processors. In the 1970's, a multinational group of wine producers arrived in Rio Grande do Sul bringing with them modern wine-processing technology and planting new *vinifera* varieties although *non-vinifera* grapes still account for 80 percent of production. Isabella is the predominant *non-vinifera* grape and its juice production is an important export. In Brazil, table wine refers to *non-vinifera* and fine wine is the recently planted *vinifera*.

Today Brazil is the 5th largest wine producer in the Southern hemisphere with 320 million liters. Production in Brazil is highly concentrated in the southeast states. The state of Rio Grande do Sul alone accounts for 54 percent of all Brazilian wine grapes produced. While there was an increase in vineyard planted areas in 2010, a combination of the global economic crisis and a poor harvest led to a 3.74 percent decrease in Brazilian grape production when compared to 2009.

Grapes production in Brazil (in tons)

State/Year	2007	2008	2009	2010
Pernambuco	170,326	162,977	158,515	168,225
Bahia	120,654	101,787	90,508	78,283
Minas Gerais	11,995	13,711	11,773	10,590
São Paulo	193,023	184,930	177,934	177,538
Paraná	99,180	101,500	102,080	101,900
Santa Catarina	54,554	58,330	67,546	66,214
Rio Grande do Sul	705,228	776,027	737,363	692,692
Brazil	**1,354,960**	**1,399,262**	**1,345,719**	**1,295,442**

Source: IBGE (Brazilian Institute of Geography and Statistics)

The table above illustrates the largest decrease in production took place in the Vale do São Francisco (Bahia state): 13.51 percent decrease from 2009, followed by Minias Gerais: 10.05 percent decrease. The major wine producing region of Rio Grande do Sul realized a 6.06 percent decrease in production.

Presently in 2011, climate issues are leading to an increase in grape production. Grape growers and wine producers have invested heavily in the industry, which has led to increased quality and efficiency in production. Brazilian wine tends to be fresh and fruity with moderate to high alcohol content. The main grape varieties include Cabernet Sauvignon, Merlot, Moscato and Chardonnay (source: EMBRAPA). Because of its high quality and growing popularity, there was a 10.73 percent growth in sales for sparkling wine in 2010. Muscat sparkling wine saw a 16.71 percent increase in sales in the same year.

Major Wineries

The major players and their production volumes are as follows:

Domestic Wine Producers (2009)	Million Liters
Casa Di Conti Ltda	19.4
Cooperativa Vinícola Aurora Ltda	17.6
Vinhos Salton SA Indústria e Comércio	13.0
Bacardi-Martini do Brasil Indústria e Comércio Ltda	10.3
Vinícola Miolo Ltda	7.4
All Others	256.7
Total	**324.3**

Source: Euromonitor

The top five leading wine producers share 20 percent of the total wine production in Brazil. The top producer, Casa Di Conti Ltda, maintains a six percent share of the market.

Domestic Wine Producers

Casa Di Conti Ltda
Estimated Production: 19.4 Million Liters
Casa Di Conti has been in the market since 1947. It began making liquors, but has reached its level of success producing Vermouth. Its products have gained notoriety throughout Latin America. The company is located in the city of Cândido Mota, in the countryside of São Paulo, with an industrial area of 135.000 m². The company is dedicated to customer satisfaction and social responsibility. http://www.contini.com.br/1.0/ing/

Cooperativa Vinícola Aurora Ltda
Estimated Production 17.6 Million Liters
On February 14, 1931, sixteen families of grape growers in the municipality of Bento Gonçalves, in the southern mountains, met to lay the cornerstone of what would become the biggest enterprise of its kind in Brazil: The AURORA COOPERATIVE WINE. Aurora has been producing grapes much the same way as the Italian immigrants who originally settled in the region in 1875. From 1998 to 2007, Aurora has won over 200 awards, all with the seal of the OIV. http://www.vinicolaaurora.com.br/default.asp

Vinhos Salton SA Indústria e Comércio
Estimated Production: 13 Million Liters
The company was formally established in 1910, when brothers Paul, Angelo, John, Cesar, Luiz Antonio and Salton, incorporated the work of their father, Antonio Domenico Salton, an immigrant who vinified informally, like most Italians in the region. The brothers began to engage in the cultivation of grapes and the making of wines, sparkling wines and vermouth, with the name Paul Salton & Brothers, the Center for Bento. Nearly a century later, Salton is

recognized as one of the major wineries in the country and celebrates being familiar and 100 percent Brazilian. http://www.salton.com.br/novo/home.aspx

Bacardi-Martini do Brasil Indústria e Comércio Ltda
Estimated Production: 10.3 Liters

Vinícola Miolo Ltda
Estimated Production: 7.4 Million Liters
The winery began producing bulk wine for sale in 1989 and started bottling with a family name in 1994. The company faced growing demand and was forced to develop a plan to sustain the growth. The Miolo Wine Group was established in 2006 to assemble a line of more than 70 products from national and international partnerships. The group's goal was to formulate a line of products with a variety of qualities that can reach many different segments. The group today has eight projects: Vinícola Miolo (Vale dos Vinhedos, RS), Fortaleza do Seival Vineyards (Campanha Gaúcha, RS), RAR (Campos de Cima da Serra, RS), Lovara Vinhos finos (Serra Gaúcha, RS), Fazenda Ouro Verde (Vale do São Francisco, BA), Costa Pacifico (Chile), Osborne (Spain and Portugal) and Los Nevados (Argentina).
http://www.miolo.com.br/en/company/miolo_wine_group/

Brazilian Wine Market

Highlights

With over 203 million citizens and a 2010 GDP of over $2 trillion, Brazil is truly a sizable market. Since 2003, Brazil's economy has grown increasingly stable through a commitment to fiscal responsibility by building up foreign reserves, reducing its debt profile and adhering to an inflation target. Brazil's debt was granted investment grade status but like many of the world's economies, Brazil suffered during the recent economic crisis with a decline in global demand for Brazilian goods. The economy grew by 7.5 percent, a rate unmatched since 1986. Since the currency started 2010 strong and ended it stronger, a GDP of 3.675 trillion Reals converted at the year's average exchange rate into US $2.089 trillion. This meant that Brazil overtook Italy to rank as the world's seventh-biggest economy. Income per head in Brazil has surpassed that in Mexico.
The Brazilian consumers have led the way to economic expansion, as the growing middle class stocks up on status symbols and domestic comforts once out of their reach. The export recovery has stimulated lower unemployment rates, higher monthly incomes and an overall rise in the middle class. All of these factors contribute to larger expendable incomes. As the home to the 2014 World Cup and the 2016 Summer Olympics, it is expected that increased interest and investment by the government to accommodate those international events will lead to further economic growth and greater consumer demand.

Consumers are loyal to brands; including the low income population. More well-off consumers pay particular attention to quality, after-sales service and the company's social commitment (protection of the environment, sanitary standards, etc.) National pride is reflected in consumer habits, but Brazilians remain attached to foreign products as exterior signs of wealth (technological equipment, American sports brands, etc.) Consumption among the majority of the population is turned towards food and housing. The Brazilian consumer is more demanding and selective. He is aware of quality, the price of goods and special offers. Brazil is a dual economy, in which the upper classes distinguish themselves by consumption close to that of the United States and Europe, while the poorer people have to be careful with prices and buy almost exclusively on the unofficial market. Access to credit is increasing, especially among the middle classes and in spite of some of the highest interest rates in the world. Everything is bought on credit: real estate, household appliances and brand name clothes. Many shops offer to spread payments over a period of time, sometimes without charging interest.[4]

While it is only natural that wine exporters would like to tap into the Brazilian economy, there are a variety of barriers. The Brazilian government currently has both tariff and non-tariff barriers that are not easily overcome. Furthermore, as a result of the advantages of free trade agreements, Chile and Argentina have been able to export at substantially lower costs, and as of 2010, together comprise over 57 percent of all wine imports. Consumers, however, are open to emerging trends, which may represent an opportunity for the U.S. to move up from its current status as the 10th largest wine exporter to Brazil, importing $1,415,977 in 2010 under Harmonized Code 2204- Wines of Fresh Grapes[5].

Euro Monitor reports: *that alcoholic drinks experienced strong growth in 2010 driven by the good performance of all sectors, in particular beer, which accounts for some 87% of overall volume sales. Beer benefited from increasing disposable incomes among lower-income brackets and steady unemployment rates combined with the consumer interest in the FIFA World Cup held in South Africa boosted sales in June and July, a period of the year when demand is typically lower compared to the summer season.*

Growing Investments in Premium Alcoholic Drinks

With improvement in the purchasing power of most Brazilians, growing demand for higher quality products was evident over the review period. As a result, alcoholic drinks manufacturers invested in expanding their portfolios with premium products such as Cervejarias Kaiser do Brasil which introduced Amstel Pulse (Netherlands), Birra Moretti (Italy), Edelweiss (Austria), Murphy's Irish Stout and Murphy's Irish Red (Ireland) in early 2010 and Cervejaria Petrópolis, which partnered with a German brewery to produce and distribute Weltenburger beer locally. In addition, growing sales of premium brands such as Absolut, Wyborowa and Stolichnaya were evident in vodka, and Ypióca Gold and artisanal products in cachaça.

Ambev Continues To Grow In 2010

AmBev (Cia Brasileira de Bebidas) is the outright leader in alcoholic drinks due to its leading position in beer. The company has a wide portfolio of beer in the standard and premium segments and it continued to experience growth in 2010 despite the acquisition of Cervejarias Kaiser do Brasil by Heineken and strong investments of Schincariol Participações e Representações and Cervejaria Petrópolis in expanding their portfolios with Devassa (Schincariol) and Petra and Weltenburger (Cervejaria Petrópolis).

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[4] www.laposte-export-solutions.co.uk/uk

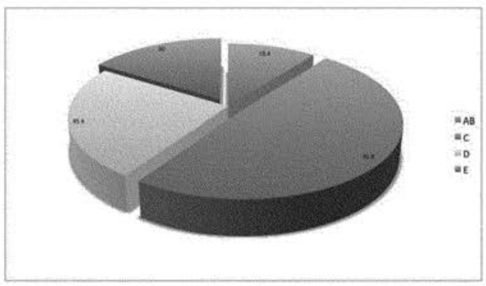
[5] http://www.gtis.com/gta/secure/gateway.cfm

Shift to Off-Trade Spurs Sales In Supermarkets/Hypermarkets

The shift in consumption of alcoholic drinks from the on-trade to off-trade channels was very positive for supermarkets and hypermarkets which increased shelf space given over to alcoholic drinks, particularly beer. Additionally, investment by manufacturers in diversifying packaging sizes of beers such as 1-litre glass bottles, 473ml/269ml/210ml metal beverage cans and 5-litre kegs to cater to consumers' different needs also contributed to spur sales in grocery retailers.

Optimistic Outlook for Alcoholic Drinks

Alcoholic drinks is expected to show significant growth over the forecast period as disposable incomes will continue to improve among socioeconomic groups[6] C, D and E and unemployment rates will remain steady. Beer will continue to sustain growth of alcoholic drinks in the near future but it is estimated that wine, driven by still light grape wine and sparkling wine, and spirits such as whiskies and vodka will experience strong growth from 2010 to 2015 as Brazilian consumers expand their consumption habits in alcoholic drinks.[7]



Economical Segments 2008

Source: http://www.propertybrazil.com/news/the-emerging-middle-class-in-brazil-25

[6] The Brazilian economical classes are segmented according to **monthly household income levels** as follows:
Class A&B: + 4807 R$
Class C : 1116 - 4807 R$
Class D: 804 - 1115 R$
Class E: Under 804 R$
As can be seen, class A & B make up the upper income classes; class C is the "official" middle class; class D constitutes the lower middle class and class E is the lowest income segment.

[7] Source: Euro Monitor

Alcohol in Brazilian Culture

Since the early 2000s, wine consumption and tasting have become much trendier among Brazilians. This has made consumers more knowledgeable and has led to increased consumption, especially *New World* wines of South America. In 2001, the Brazilian Wine Institute (IBRAVIN) conducted research to evaluate consumers' wine preferences. At that time, it was determined that there were three categories of wine consumers: light users (1/2 bottle per month); medium users (1-3 bottles per month); and heavy users (more than 3 bottles per month), representing 36 percent, 54 percent and 10 percent of buyers, respectively. Medium users tend to be 40 years of age and in the middle class, with an even distribution of men and women; more than half have university degrees. It was determined that income and education don't affect consumption patterns while sex and age do. Men tend to be heavier drinkers, while females tend to be lighter drinkers. Consumption also tends to increase with age. Light drinkers tend to drink on holidays or in the winter.

Brazilians tend to consume mostly still wines and sparkling wines. Among still wines, red wine is the most popular. While vermouth and dessert wines have been popular in the past, consumption has been slowing and is expected to continue to decline as such types are not nearly as popular among young consumers. As a result, there are limited marketing campaigns to promote these products. Wine education is starting to see growth amoung Brazilians and more consumers are familiarizing themselves with wine quality and type. Wine economists expect a growth in reserve wine sales in 2011. In fine wines, the most common varietals are Cabernet Sauvignon, Merlot and Pinot Noir for still red wine, with esteem rising for Malbec and Shiraz. Chardonnay, Moscato and Sauvignon Blanc are the most popular varietals for still white wine and other sparkling wine.

In Brazil, 750ml glass bottles are the most common form of packaging, accounting for 95 percent of wines. Some manufacturers have invested in alternative packaging such as PET bottles and bag-in-a-box to reduce costs and promote sales to the younger generation. However, these pack types represent no more than 2 percent of volume sales. Salton released a 187ml glass bottle to stimulate sales amongst club and bar patrons. However, wine purchasing tends to take place mostly in supermarkets and specialty stores.

In June 2008, the federal government enacted a law that established new rules for drink driving and sales of alcoholic drinks in highways located in rural areas. Law 11705/08, also named "Lei Seca" (Dry Law), prohibited sales of alcoholic drinks in restaurants, bars and any other establishment located in highways outside urban areas. This Law also changed the tolerance of drink driving from 0.6 mg/litre to 0.1 mg/litre. Drivers who are caught under the influence of more than 0.1 mg/litre will be subject to a fine of R$955, detention of their vehicle and withdrawal of their driving license for one year. For those who are caught with alcohol levels of over 0.6 mg/litre, the driver will also be taken into custody from six months to three years, with bail fixed between R$300 and R$1,200.

Domestic Marketing

In 2008, IBRAVIN (Brazilian Institute of Wine) and key players of the wine industry invested in an advertising campaign to promote national brands of still light grape wines and highlight the high quality of Brazilian wines. There are also efforts to increase exports of still light grape wines and sparkling wines through a project called "Wines of Brazil", a partnership between wine manufacturers and APEX (Brazilian Agency of Promotion of Exports and Investments). Sparkling wines still account for the majority of exports reaching 665 tonnes in 2007.

Declining sales of table wines and competition with Chilean and Argentinean still light grape wines will lead domestic manufacturers to increase investment in a wide product portfolio of fine wines with brands positioned as low-, mid- and high-end as part of the strategy to remain competitive and cater to the different demands of high-income consumers and mid-/low-income consumers. For wealthier consumers, the grape varietal type and origin of the wine are important attributes, while price followed by origin are the most important criteria for lower-income brackets.

The competition between imported and national wines will persist until the Brazilian government, trade associations and key domestic manufacturers adopt an agreement about the import tax charged to Chilean and Argentinean governments or subsidies provided by the Brazilian government to protect domestic companies. Meanwhile, the wine industry will have to maintain investments in economy products and/or marketing campaigns to increase the visibility of their products.

Investment in smaller packaging for sparkling wines and still light grape wines such as Salton might be a good strategy to stimulate young consumers to trial different alcoholic beverages, especially in the on-trade since the sector faces resistance from consumers between the ages of 18 and 25 that frequently prefer beverages such as beer, vodka and RTDs.

U.S. Wines in Brazil

Current U.S. Exports

In 2010, U.S. wine sales to Brazil totaled $1,415,977[8]; however, this represented a miniscule percentage of the wine import market. Over the last three years, Brazil has imported approximately 6.5 million cases (12 bottles of 750ml each) of wine per year, which represents US$ 196 million FOB of annual imports. The U.S. share of those imports is less than one percent. Although Brazil's population is approximately 203 million, wine consumption *per capita* for 2010 was 1.8 liters. This small figure presents definite possibilities for market expansion. The United States Department of Agriculture, Foreign Agricultural Service (FAS) prepared a list of best import prospects based on Brazilian consumption patterns. According to the FAS market trend evaluation, wine ranks second on the list of potential increase.

[8] http://www.gtis.com/gta/secure/gateway.cfm

Product	Imports in 2009	Import Tariff Rate	Key Constraints to Market Development	Market Attractiveness for USA
Dairy Products	US$ 366 mi	Depends on the HS Code. Ranges from 14% to 28%	U.S. has to overcome tariffs and high transportation costs compared to tariffs applied to Mercosul member countries.	From January-October, 2010 imports increased 20% compared to the same period in 2009.
Wine	US$ 176 mi	20%	U.S. has to overcome tariffs and high transportation costs compared to tariffs applied to wines from Mercosul member countries and Chilean wines. Investments in marketing are also needed.	In 2009, wine imports increased 108%. Brazilian consumers are open and receptive to wines from new origins and varieties.
Processed Fruit and Vegetables	US$ 500 mi	Depends on the HS Code. Ranges from 10% to 18%	Argentina is the largest exporter with a share of 31% of total sales. U.S. has to overcome tariffs and transportation costs.	From January-October, 2010 imports increased 40% compared to the same period in 2009.
Fish/Seafood products	US$ 501 mi	Depends on the HS Code. Ranges from 10% to 16%	U.S. has to overcome tariffs and U.S. transportation costs. Investments in marketing are also needed.	From January-October, 2010 imports increased 40% compared to the same period in 2009.
Food Preparation products (HS Codes 21.03 and 21.04)	US$ 20 mi	Depends on the HS Code. Ranges from 16% to 18%	U.S. is the top supplier of food preparation products with a share of 34% of total imported value.	From January-October, 2010 imports increased 4% compared to the same period in 2009.

A turn in Brazilian consumption patterns shows an increase in wine educated drinkers interested in purchasing *New World* wines. More affluent consumers are expanding the market possibilities for United States winemakers.

Ability of US Brands to Penetrate the Market

Brazilian wine imports have grown to a great extent in the past decade. South American and EU wine suppliers have well-established positions and customs duty preferences, making it difficult for other countries to penetrate the market. The current situation for wines of the United States could be considered difficult but not insurmountable. Brazilian wine importers stated that the current exchange rate and the rise in income of Brazilian citizens increase the attraction to purchase U.S. wines. The exceedingly high rate of imported Chilean wines only proves consumer interest in *New World* wines, a positive indicator for the United States.

According to the Secretary for External Commerce from the Ministry for Development, Industry and Commerce (SECEX/MDIC), the growth of U.S. wine exports to Brazil was larger than the average growth of imported wines in containers of less than two liters. This means that over the course of five years, between 2005 and 2009, U.S. wine exports increased 187 percent against an average growth of 108 percent of all imported wines in the same period. The United States ranked 2nd only to France for the largest market growth. Thankfully, Brazilian consumers are open to emerging trends, leading to significant growth opportunities for imports of *New World* wines. This openness should provide excellent opportunities for U.S. wines in the near future.

The Effect of Brazilian Trade Policy on Imported Wine

Brazil is a party to a plurilateral free trade agreement called MERCOSUR. This agreement represents the Southern Cone Common Market. Countries involved in the agreement include Argentina, Brazil, Paraguay and Uruguay with Chile as an associate member. MERCOSUR created a customs union between member countries that provided for the elimination of certain trade barriers at the end of 1995. A common external tariff has been implemented upon all products coming in from outside the region. The mutual tariffs set for wine by the parties' trade agencies were imposed at 20 percent.

Argentinean producers profit in sales to Brazil since their wines are exempt from import tariffs under the MERCOSUR trade agreement. Because of this, Argentinean producers began intensely marketing their neighbor country. Even Chilean wines have enjoyed a decrease in import tax through a bilateral trade agreement with Brazil that will reach tax exemption in 2011. In 2006, the Brazilian government agreed to reduce import taxes from 27 percent to zero percent in exchange for the Chilean agreement to purchase buses from Brazil for the widening tourism movement. These tax benefits have increased the popularity of Argentinean and Chilean wines while harming domestic sales and other imported wines at the same time.

Consumption Analysis

Value and Volume Estimates

For 2009, Brazilian wine consumption was 310.5 million liters, at a value of US $2,970 million. Consumption for 2011 is estimated at 314 million liters, and consumption for 2014 is estimated at 332.9 million liters. On a *per capita* basis, Brazilians consume 1.8 liters of wine per annum, a small figure compared to the neighboring country of Argentina at 23 liters per annum. Economists recognize a steady 10 percent increase in consumption in both 2009 and 2010 and predict there will be a similar increase in 2011 and 2012.

Brazilian Wine Consumption

Table A

Brazilian Wine Consumption- Historical and Projected			
By Volume (million liters)			
Year	**Total**	**Imported**	**Domestic**
2004	341.00	64.40	276.60
2005	395.30	39.50	355.80
2006	375.10	49.90	325.20
2007	363.50	59.60	303.90
2008	344.90	56.60	288.30
2009	324.30	57.80	266.50
2010	310.50	73.70	236.80

2011	314.00		
2012	319.20		
2013	327.00		
2014	332.90		

Source: Euromonitor- Passport

Table B

Brazilian Fine Wine Market					
YEAR/PRODUCT	**2006**	**2007**	**2008**	**2009**	**2010**
NATIONAL	25,085	23,130	23,120	23,019	24,670
IMPORTED	46,371	57,629	54,410	55,927	75,051
TOTAL GRAPEVINES	**71,456**	**80,759**	**77,530**	**78,946**	**99,721**
IMP. PARTICIP./TOTAL (%)	**64.89**	**71.36**	**70.18**	**70.84**	**75.26**

Source: UVIBRA (Brazilian Grape and Wine Producers Association); IBRAVIN (Brazilian Wine Institute) and MDIC (Minstry of Development, Industry and Foreign Trade)
Created by: Loiva Maria Ribeiro de Mello – Embrapa Uva e Vinho (Grape and Wine)

It is important for third country producers to note imported fine wines (Table B) accounted for 75.26 percent of the total 100 million liters of fine wines sold in Brazil's 2010 market. However, both Table A and Table B show Brazilian wine consumption trends to be somewhat unpredictable. Consumption totals of imported and domestically produced wines tend to fluctuate from year to year. A variety of factors affect consumption totals. Emerging demands for imported wines are often hindered by new barriers to trade, and with much of the market demand for wine met by domestic production (which is highly concentrated in one region, Rio Grande do Sul), a poor crop can drastically affect the market. National fine wine has thus-far been unable to meet demand. The economic crisis clearly affected the Brazilian wine industry, but analysts predict that consumption totals will continue to grow in the future, consistent with the rise of the middle class.

Wine Consumption According to Price Structure

Still Wine Consumption by Price Range (USD) in Million Liters						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
\$0-\$5.60	94.0	104.5	93.5	82.9	74.0	65.4
\$5.60-\$13.43	110.4	135.3	130.3	128.5	122.2	115.9
\$13.43-\$22.39	10.6	13.9	13.6	15.8	15.9	15.1
\$22.39+	11.7	14.7	14.5	14.8	14.5	13.8

Source: Euromonitor- Passport

It is apparent from the table above that Brazilian consumers strongly prefer moderately priced and less expensive wines. For 2009, over 86 percent of still wines consumed cost less than $13.43. This is consistent with the idea that the rising middle class is consuming alcohol and the idea that most of the wine consumed is produced either domestically or in other South American Countries, keeping tariffs and transportation costs low.

Wine Consumption for 2009 By Wine Type (Still Wines)

Still Light Grape Wine Consumption 2009 (by type)	
By Volume (million liters)	
Color	**Total**
Red	217.3
White	45.9
Rose	4.5
Total	267.7

Source: Euromonitor- Passport

Brazilians clearly have a strong preference for red wine. Of the red wines, Cabernet Sauvignon enjoys the dominant share with 71.6 million liters. Malbec and Merlot are also very popular grape varieties, with 22.5 and 24.3 million liters respectively. Of the white wines, Chardonnay is most popular with 21.5 million liters.

Wine Consumption Data for Imports

Brazil Import Statistics Commodity: 2204, Wine Of Fresh Grapes, Incl Fortified; Grape Must O/T Heading 20.09 Calendar Year: 2008 - 2010							
Partner Country	**Unit**	**2008**		**2009**		**2010**	
		USD	**Quantity**	**USD**	**Quantity**	**USD**	**Quantity**
World	L	185,836,478	56,593,564	196,049,568	57,848,119	251,549,238	73,767,146
Chile	L	50,982,411	18,177,493	61,563,326	21,961,881	73,239,549	25,957,208
Argentina	L	40,476,584	15,297,016	41,255,809	14,752,051	55,715,290	18,046,478
France	L	27,048,955	3,051,254	28,840,407	2,973,740	35,805,532	3,577,296
Italy	L	28,853,317	10,704,938	26,076,286	9,055,564	33,452,731	12,960,301
Portugal	L	24,100,160	6,233,933	23,980,957	5,972,013	29,947,461	8,057,888
Spain	L	7,215,868	1,239,690	7,627,607	1,411,411	10,618,202	1,989,727
South Africa	L	1,182,329	315,459	1,973,912	498,107	3,637,693	939,835
Uruguay	L	2,097,911	880,192	1,963,590	748,045	3,225,363	1,254,517
Australia	L	1,252,014	196,777	1,000,788	213,247	1,876,543	345,808
United States	L	577,322	77,536	728,777	92,535	1,415,977	220,637

Source: worldtradestatistics.com/gta

Import Market Shares by Country of Origin

The chart above clearly demonstrates the dominance of Chilean and Argentinean wines imported into Brazil. Both countries have seen their wine exports increase in value in the past three years. Chile controls 29 percent of total imports at an average FOB price of US $25.20 for a 9 liter case and Argentina maintains 22 percent at FOB US $23.50. Together, Chile and Argentina account for 57 percent of the imported wines to Brazil. The wine producers of the European Union follow distantly, yet maintain their positions as a result of established and recognized brands. The United States and some other New World wine producers, South Africa and Australia, have yet to fully actualize their potential in the market. The United States, the 10th largest exporter, showed significant increases in both quantity and value from 2009-2010. The table below shows Chile and Argentina maintaining over 57 percent of wine import value, while the US currently holds a meager 0.56 percent.

Import Market Shares by Country of Origin	
1. Chile	29.12%
2. Argentina	22.15%
3. France	14.23%
4. Italy	13.30%
5. Portugal	11.91%
10. US	0.56 %

worldtradestatistics.com/gta

Brazil Trade Report

Brazil has realized the potential benefits of international cooperation and has made efforts in recent years to open its markets to international trade. Brazil's trade policy is focused on membership in multinational organizations. Brazil is an original member of the World Trade Organization and is an active participant and leader, especially for developing countries. Brazil grants MFN status to all of its trading partners and over 75 percent of Brazilian trade is done with these partners.

Brazil is also very focused on collaborative regional trade. Brazil is one of the founders of the Southern Common Market (MERCOSUR), which represents over 250 million people and three-quarters of South American economic activity. The other full members include Argentina, Paraguay, and Uruguay. Bolivia, Chile, Colombia, Ecuador, and Peru hold associate member status which allows them to join free trade agreements, but remain outside the customs union. Venezuela is on the cusp of becoming a full member, pending ratification. MERCOSUR has pursued different trade negotiations with Israel, India, South Africa, Egypt, the Gulf Cooperation Council, Jordan, Morocco, Turkey and the European Union, though each has met difficulties in ratification and implementation. Several MERCOSUR leaders reject the idea of potential US free-market policies.

Other trade organizations of which Brazil is a member include the Global System of Trade Preferences among Developing Countries (GSTP), Multilateral Investment Guarantee Agency (MIGA), and Organization for Economic Cooperation and Development (OECD).

Brazil's trade policy drastically affects its wine imports and the potential for US wines. In 2006, Brazil and Chile signed an agreement to gradually eliminate import taxes reaching zero percent by 2010. In exchange, Chile agreed to purchase Brazilian buses. As members of MERCOSUR, Argentina and Brazil share zero percent import taxes. This explains the high concentration of these wines in Brazil from previous sections of this report.

Trade Balance

Grape, Grape juice, wine and by-products exports and imports balance: amounts in USD 1,000.00 (FOB) – Brazil 2008/2010

Product	2008		2009		2010	
	Quantity	USD	Quantity	USD	Quantity	USD
Exports						
Fresh grapes (t)	82,242	171,456	54,560	110,574	60,805	136,649
Grape juice (t)	6,623	15,174	5,860	12,621	3,098	8,048
Table wine (1,000 L)	10,346	7,118	25,514	8,941	10,067	5,297
Sparkling wine (1,000 L)	355	548	190	347	320	1,335
Total		**194,296**		**132,483**		**151,329**
Imports						
Fresh grapes (t)	12,565	14,849	18,655	21,697	24,794	36,075
Raisins (t)	20,146	34,973	22,656	32,648	25,919	50,664
Table wine (1,000 L)	54,410	165,692	55,927	176,396	70,737	223,080
Sparkling wine (1,000 L)	3,502	20,144	3,200	19,473	4,314	27,961
Grape juice (t)	185	227	43	52	-	-
Total		**235,885**		**250,266**		**337,780**
BALANCE		**-41,589**		**-117,783**		**-186,451**

Source: MDIC (Ministry of Development, Industry and Foreign Trade)
Created by: Loiva Maria Ribeiro de Mello - Embrapa Uva e Vinho (Grape and Wine)

Imported wine sales are higher than domestic sales by a large margin, proving Brazil to be a targetable consumer market. In 2010, imported wine totaled $251.5 million. There was a 26.48 percent increase in wine imports quantity with an average price of USD 3.15 per liter. The table above shows Brazil to hold a USD 186.451 million deficit due to an increase in imports in all items and a reduction in exports.

Import Procedures[9]

Customs Clearance

In order to export wine to Brazil, U.S. exporters must have the following documents:

- **Pro forma invoice** (including product information, form of payment, method of transportation, etc.)
- **Commercial invoice** (this is required to clear the products through Customs. The commercial invoice should include U.S. exporter and Brazilian importer information, quantities, brands, net and gross weights of the package, country of origin, destination country, payment conditions, etc.)
- **Air Waybill** or **Bill of Lading**
- **Certificate of Origin and Analysis**

It is essential for the U.S. exporter to establish a good working relationship with a Brazilian importer. The importer accepts a **pro forma invoice** by the exporter then applies for an import license (LI) before any shipments can enter Brazil. The license is obtained through the SISCOMEX electronic system and must be approved by MAPA before any shipment is made. Once the import license is obtained, the importer must register the Import Declaration at SISCOMEX. The Import Declaration contains importer information, data on the cargo and bonded storage, etc. The importer will then notify the exporter and provide "embarkation instructions" for wine shipment. When the wine arrives in Brazil, the importer must have goods physically reviewed by a MAPA official, pay duties and taxes and have all required information for the customs inspection before the release of the product.

The following table lists the procedures necessary and the number of days spent on each for importing standardized cargo of goods into Brazil. Wine requires some additional documentation.

Import Procedures (2010)

Nature of Import Procedures	Duration (days)	Cost (USD)
Documents preparation	8	330
Customs clearance and technical control	4	250
Ports and terminal handling	3	300
Inland transportation and handling	2	850
Totals	17	1730

World Bank. *Doing Business in Brazil 2011.* Washington, DC. www.doingbusiness.org

Standard Import Documents[10]

[9] For a more detailed description of import procedures see http://www.usdabrazil.org.br/home/pdf/rw_wine.pdf
[10] (World Bank. *Doing Business in Brazil 2011.* Washington, DC. www.doingbusiness.org) (US Agricultural Trade Office (ATO) of USDA/Foreign Agricultural Service in Sao Paulo, Brazil *Wine Market Access Project).* www.usdabrazil.org.br)

The following is a list of exporter documents necessary to import a standardized cargo of goods into Brazil, taken from both the World Bank's report *Doing Business in Brazil 2011* and USDA's Sao Paulo Agricultural Trade Office *Wine Market Access Project*:

- Copy of Bill of lading
- Certificate of analysis and certificate of Origin
- Aging certificate (if necessary)
- Cargo release order
- Commercial invoice
- Customs Import Declaration
- Foreign Exchange Authorization
- Packing list
- Technical Standard/ Health Certificate

Product Certificates[11]

All wines exported to Brazil must be accompanied by a certificate of origin and a certificate of analysis. A Letter of Free Sale from TTB substitutes for the certificate of origin. Since the regulations define wine as 14 percent or less, for any wine above 14 percent alcohol a Certificate of Typicity is required. The certificate is to clarify that the higher alcohol content is because of the wine appellation's soil and climate conditions. In recent regulations, MAPA requires exporting countries to provide a formal list of government accredited entities eligible to issue certificates of origin and analysis. Certificates from Chambers of Commerce are no longer eligible sources. MAPA provides models of the forms presented in Normative Instruction no. 54/2009, ANNEX VIII (see Appendix II). Both certificates must be signed and stamped upon importation. A list of eligible entities is made available on MAPA's web site (https://www.agricultura.gov.br/).

Labeling Requirements

The following information is required by Brazilian law to be placed on labels of alcohol beverages. For a product whose label is not in the Portuguese language, an adhesive sticker can be placed on the original label containing all the required information:

- Brand name of product
- Type of product
- Net contents (in metric units)
- Importer's name, address and corporate ID number
- Producer or Manufacturer's name and address
- MAPA Registration number of importer
- Country of origin
- Alcohol content (% alc. by volume)
- List of ingredients
- Lot identification code
- Storage care

[11] See Appendix I for Regulations Concerning Oenological Practices

- Period of validity (if applicable)
- Gluten declaration: "*Contém Glúten*" (Contains Gluten) or "*Não contém Glúten*" (Does not contain Gluten)
- Warning statement must be declared in bold letters on labels for beverages with alcohol content above 13 percent alcohol by volume**:** "*Evite o consumo excessivo de álcool*" (Avoid excessive consumption of alcohol).

The exporter should forward a sample of the package to the importer in order to confirm label compliance.[12]

Tax and Duty Structure

Importing wine to Brazil is met with a significant tax burden. Imported U.S. wine is subject to a 27 percent import duty for bottles containing two liters or less. Other wine categories (over two liters) like most other imported goods have only a 20 percent tariff. Brazilian Federal authorities view bottled wine as a luxury good imposing a higher duty. In addition, the following taxes are imposed on a cumulative "compounded" basis with the value added tax imposed on the total "tax paid" value.

HS Code	Duty	Applied On	Taxes	Applied On
2204.21	27%	CIF	40% IPI (industrial products tax)	CIF + Duty
			7.6% COFINS (social security tax)	CIF + duty + IPI
			1.65 PIS (social security tax)	CIF + duty + IPI
			17% ICMS (Merchandise circulation tax)	CIF + duty + IPI + (PIS + COFINS)
			1% Miscellaneous Tax	CIF
			25% VAT	CIF and all of the above

Government Agencies Regulating Alcohol

In Brazil the Secretariat of Agricultural Protection (SDA) and the Ministry of Agriculture, Livestock and Food Supply (MAPA) have authority over domestic and imported plant products and by-products. Within the SDA, the Department of Plant Origin Products Inspection Service (DIPOV) enforces federal law regarding the registration, compliance and labeling of beverages (including distilled spirits and wine, soft drinks and juices). With the recent rise in imports, the General Coordination for Wines and Beverages (CGVB) was created to oversee wine and beverages. Inspections at points of entry are overseen by the General Coordination for International Sanitary Inspection of Agriculture and Livestock (CGVIG).[13]

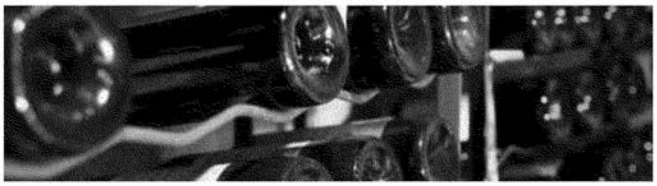
[12] http://www.ttb.gov/itd/brazil.shtml#REQUIREMENTS

[13] FAS GAIN Report BR10010

Marketing Analysis

Organized Retail

In regard to food distribution in Brazil, retailers are the majority sector. There are approximately 78,300 retail stores according to the Brazilian Supermarket Association (ABRAS). Of the top 500 supermarkets, the three largest (percentage share of gross sales, 2009) are - Pao de Acucar: 21.5 percent; Carrefour: 21.0 percent; Walmart: 16.2 percent.[14] Recently, retail chains have shown interest in purchasing wines directly from wineries. This new endeavor will avoid the three-tier system involved in buying wines from importers and distributors. Direct shipment could reduce the retail price significantly, allowing the end consumers to expand their purchasing options. This will broaden the exposure of *New World* wines to a large range of consumers.



Brazilian Wine Importers

Of direct imports, the most prominent players are the groups Carrefour, Companhia Brasileira de Distribuição, Walmart, Sonae, Sendas and Casa Santa Luzia. Most of the major specialized importing companies, such as Expand, Mistral or Interfood, are based in São Paulo. Expand is the largest wine importer in Brazil and currently represents 2,500 labels.

Retail chains have recently shown more interest in purchasing wines direct from wineries without having to buy from importers and distributors. Wineries currently selling to Walmart or Carrefour should contact their buyers to determine the opportunities for direct sales.

Name:	Carrefour
Address:	Av Marechal Deodoro, Anápolis - GO, 75103, Brazil
Website:	www.carrefourbairro.com.br/
C.E.O:	Lars Olofsson
Established In:	France
Major Brands:	Atacadao
Description About the Company:	Carrefour S.A. operates 67 hypermarkets, 81 supermarkets, and hard discount and convenience stores primarily in Europe, Latin America, and Asia.

[14] Brazilian Food Processors' Association (ABIA)

	The supermarkets provide non-food ranges, such as apparel, culture and leisure, and tableware products. Its hard discount stores offer non-food items, fruits, vegetables, meat, fish, and snacks; and convenience stores provide products for preparing meals, including fresh produce and a butcher's department; ready-to-eat products and daily items; and mobile phone top-up vouchers. In addition, the company operates as a wholesaler for catering and food industry professionals; and provides online shopping services.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Companhia Brasileira de Distribuição
Address:	Av. Brigadeiro Luiz Antonio, 3142 São Paulo, SP 01402-901
Website:	www.carrefourbairro.com.br/
C.E.O:	Enéas César Pestana Neto
Contact person:	José Roberto Coimbra Tambasco
Established In:	São Paulo
Description About the Company:	Companhia Brasileira de Distribuicao, together with its subsidiaries, operates as a retailer and wholesaler of food products, bazaar articles, clothing, home appliances, and other products through its chain of hypermarkets, supermarkets, specialized and department stores, convenience stores and the Internet in Brazil. The company operates its stores under the Pao de Acucar, CompreBem, Extra, Extra Eletro, Extra Perto, Extra Facil, Extra.com, Sendas, Assai, and Ponto Frio e PontoFrio.com names.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Walmart
Address:	702 SW 8th Street, Bentonville, Arkansas 72716-8611
Website:	www.walmartbrasil.com.br/
C.E.O:	Hector Nunez
Established In:	Barueri, Brazil
Description About the Company:	Walmart Brasil Ltda. owns and operates supermarkets and hypermarkets. The company's products include food, clothing, household appliances, and electronics. It was formerly known as Sonae Distribuicao Brasil S/A. The company was founded in 1995 and is based in Barueri, Brazil. Walmart Brasil Ltda. operates as a subsidiary of Wal-Mart Stores Inc.

Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Grupo Pão de Açúcar
Address:	Headquarters: Avenida Brig.Luiz Antonio 3172 Sao Paulo, SP 01402901 Brazil
Website:	www.grupopaodeacucar.com.br/home.htm
C.E.O:	Eneas Pestana
Description About the Company:	Publicly traded, largest Brazilian company engaged in retailing food, general merchandise, electronic goods, home appliances and other goods from supermarkets, hypermarkets and home appliance stores.
Distribution (National, local, regional):	National. Distribution and logistical centers located in São Paulo, Rio de Janeiro, Fortaleza, Curitiba and Recife.
Market (Retail, HoReCa, Wholesale):	Retail

Name:	G. Barbosa Comercial Ltda.
Address:	Rod Br 235 Km 04, Anexo 01, S/N Nossa Senhora Do Socorro, SE 49160-000
Website:	www.gbarbosa.com.br
Established In:	Nossa Senhora Do Socorro
Description About the Company:	G. Barbosa Comercial Ltda. owns and operates supermarkets, hypermarkets, soft discount supermarkets, and pharmacies. G. Barbosa Comercial Ltda. operates as a subsidiary of Cencosud S.A.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Companhia Zaffari Comércio e Indústria
Address:	Av Plinio Brasil Milano 1000 Porto Alegre, RS 90520-000
Website:	www.zaffari.com.br
C.E.O:	Cláudio Zaffari
Established In:	Porto Alegre
Description About the Company:	Companhia Zaffari Comercio E Industria owns and operates a chain of hypermarkets and shopping centers in Rio Grande do Sul and São Paulo.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Prezunic Comercial Ltda.
Address:	Avenida das Americas nº 16100 Sobre Loja Rio de Janeiro, RJ 22790-704
Website:	www.prezunic.com.br
C.E.O:	Genival de Souza Beserra
Established In:	Rio de Janeiro
Description About the Company:	Prezunic Comercial Ltda. operates a chain of supermarkets. The company was founded in 2001.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	DMA Distribuidora
Address:	Av. Senador Queiroz 605 São Paulo, SP 01026-001
Website:	www.grupodma.com.br/
C.E.O:	Epifânio Parreiras Júnior
Established In:	São Paulo
Description About the Company:	DMA Distribuidora S/A owns and operates grocery stores.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	Lojas Americanas
Address:	Rua Sacadura Cabral, 102 Saude Rio De Janeiro, RJ 20081-260 Brazil
Website:	www.americanas.com.br; www2.lasa.com.br
C.E.O:	Murilo dos Santos Corrêa
Established In:	Rio de Janeiro
Description About the Company:	Lojas Americanas S.A., together with its subsidiaries, operates a chain of retail stores and e-commerce sites in Brazil. Its stores offer confectionery products, biscuits, toys, CDs, DVDs, home appliances, personal care products, cosmetics, stationery, and clothing, as well as table, bed, and bathware. The company also operates three e-commerce sites, including Americanas.com, Shoptime, and Submarino.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Name:	A Angeloni & Cia Ltda
Address:	Av. Do Centenario 7521 Criciuma, SC 88815-900 Brazil
Website:	www.angeloni.com.br
C.E.O:	Antenor Angeloni
Established In:	Criciuma
Description About the Company:	A. Angeloni & Cia. Ltda. operates a chain of supermarkets in Brazil. In addition, it operates drug stores, gas stations and distribution centers.
Distribution (National, local, regional):	National
Market (Retail, HoReCa, Wholesale):	Retail

Other Companies Importing into Brazil

Company Name	Address	Website	Phone
ADEGA ALENEJANA	Rua Cincinati, 12, Brooklin, São Paulo	www.adegaalentejana.com.br	(011) 5044-5760
ALLFOOD	Rua da Moóca, 1736, Moóca - SP	www.allfood.com.br	(011) 6099-0444
ANA IMPORT	São Paulo	www.anaimport.com.br	(011) 5501-1900
AURORA IMPORTADORA	São Paulo	www.auroravinhos.com.br	Vendas: (011) 3048-2282
BACCO'S	Rua Sergipe, 568 Higienópolis-SP	www.baccos.com.br	(011) 3661-7898
BEALE BEBIDAS	Rua Rego Freitas, 52, Vila Buarque, São Paulo	www.beale.com.br	(011) 3337-0899
BEST WINE	São Paulo	www.bestwine.com.br	Vendas: (11) 3722-2155
BRUCK	Rua Paula Souza, 216, Santa Ifigênia -SP	www.bruck.com.br	(011) 3329-3400
CANTU	São Paulo	www.cantu.com.br	0300 210 1010
CASA DO PORTO	Alameda Franca, 1225, Jardim Paulista -SP	www.casadoporto.com	(011)3061-3003
CASA FLORA	Rua Santa Rosa, 207, Brás - SP	www.casaflora.com.br	(011) 3327-5199
CASA LISBOA	Praça Silvio Romero, 126, Tatuapé -SP	www.casalisboa.com.br	(011) 6197-4888
CASA SANTA LUZIA	Alameda Lorena, 1471, Jardins - SP	www.santaluzia.com.br	(011) 3897-5000
CELLAR	São Paulo	www.cellar-af.com.br	(011) 5531-2419
DECANTER	Rua Joaquim Floriano, 101, Cj. 805/807, Itaim Bibi -SP	www.decanter.com.br	(011) 3074-5454
DE LA CROIX	Av. Pedroso de Moraes, 677, Cj. 61, Pinheiros -SP	www.delacroixvinhos.com.br	(011) 3034-6214
EMPÓRIO FREI CANECA	Shopping Frei Caneca - 1º piso - lojas 208/209/210, Cerqueira César -SP	www.emporiofrecaneca.com.br	(011) 3472-2082
EMPÓRIO HÚNGARO	Rua da Paz, 956, Chácara Santo Antônio -SP	www.emporiohungaro.com.br	(011) 5181-6298 (011) 2597-0876
ENOTECA FASANO	Rua Amauri, 255, Itaim Bibi - SP	www.enotecafasano.com.br	(011) 3168-1255
EXPAND EXPAND STORE SHOPPING D&D	Av. das Nações Unidas, 12.551 - Piso L1 - Loja 105, Brooklin Novo -SP		(011) 3043-9877

EXPAND EXPAND STORE SHOPPING MARKET PLACE	Av. das Nações Unidas, 13.947 - Térreo - Loja 107, Brooklin Paulista -SP		(011) 5543-5228
EXPAND STORE HIGIENÓPOLIS	R. Bahia, 683, Higienópolis (Brasserie Erick Jacquin) -SP		(011) 3824-4300
EXPAND STORE SHOPPING ANÁLIA FRANCO	R. Regente Feijó, 1.179 - Piso Orquídea - Loja 12/13, Jardim Anália Franco -SP		(011) 6672-3559
EXPAND STORE EMPÓRIO SANTA MARIA	Av. Cidade Jardim, 790, Jardim Paulista -SP		(011) 2102-7788
EXPAND STORE SHOPPING IGUATEMI	Av. Brigadeiro Faria Lima, 2.232 - Loja G-02/06, Jardim Paulistano -SP	www.iguatemisaopaulo.com.br	(011) 3037-7001
EXPAND STORE SHOPPING VILLA-LOBOS	Av das Nações Unidas, 4.777 - 2º Piso - Loja 239/240, Pinheiros -SP		(011) 3023-5002
EXPAND STORE DASLU	Rua Chedid Jafet, 131 - 2º andar, Vila Olímpia -SP	www.expand.com.br	(011) 3841-4577
GALERIA DOS PÃES	Rua Estados Unidos, 1645, Jardim América -SP	www.galeriadospaes.com.br	(011) 3064-5900
GRAND CRU	Rua Bela Cintra, 1799 – Jardins -SP	www.grandcru.com.br	(011) 3062-6388
GRAND VIN	Av. Brigadeiro Faria Lima, 4433 -SP	www.grandvin.com.br	(011) 3045-9888
IMIGRANTES BEBIDAS	Avenida Miguel Stéfano, 2096, Água Funda -SP	www.imigrantesbebidas.com.br	(011) 5058-2099
IMPEXCO	São Paulo	www.impexco.com.br	(011) 3257-0653
INTERFOOD/CLASSICS	São Paulo	www.interfood.com.br	Vendas: (011) 0800-7701871
KMM	Rua Medeiros de Albuquerque, 23, Vila Madalena -SP	www.kmmvinhos.com.br	(011) 3819-4020
LE TIRE-BOUCHON	Rua Barão de Tatuí, 285, Santa Cecília -SP	www.letirebouchon.com.br	(011) 3822-0515
LVMH	São Paulo	www.lvmh.com.br	(011) 3062-8388
MIOLO	São Paulo	www.miolo.com.br	(011) 2167-1600 0800 970 4165
MISTRAL	Rua Rocha, 288, Bela Vista -SP	www.mistral.com.br	(011) 3372-3400
PENÍNSULA	São Paulo	www.peninsula.akinaloja.com.br	Vendas: (011) 3822-3986
QUALIMPOR	São Paulo	www.qualimpor.com.br	Vendas: 0800-7024492
REI DOS WHISKY'S	Avenida Sabiá, 243, Moema -SP	www.reidoswhiskys.com.br	(011) 3488-2199
REI DOS WHISKY'S	Rua Maria Amália Lopes Azevedo, 973, Tremembé -SP	www.reidoswhiskys.com.br	(011) 6203-7700
SALTON	São Paulo	www.salton.com.br	(11) 2281-3300
SANTAR	São Paulo	www.santar.com.br	(011) 3227-7355
SMARTBUY WINES	Endereço Matriz: Rua Dr Vieira Bueno, 359 sala 2 Campinas, São Paulo CEP13024-040	www.smartbuywines.com.br	Telefone: 11 2308-2793
SMARTBUY WINES	Escritorio SP: R Sonia Ribeiro, 1022 Brooklin Paulista São Paulo CEP 04621-010	www.smartbuywines.com.br	19 3368-5351
TERROIR	Av. Europa, 580 , Pinheiros -SP	www.terroirvinhos.com.br	(011) 3087-8300
TERROIR	Rua Aurora, 872, Centro -SP	www.terroirvinhos.com.br	(011) 2109-1500
VARANDA FRUTAS & MERCEARIA	Praça Deputado Dario de Barros, 401, Cidade Jardim -SP	www.varanda.com.br	(011) 3035-5855

VILA VINHOS	Rua Dr. Cândido Motta Filho, 856, S1- Vila São Francisco -SP	www.vilavinhos.com.br	(011) 3719-1504
VILLE DU VIN	Rua Diogo Jacomé, 361, Vila Nova Conceição -SP	www.villeduvin.com.br	(011) 3045-8137
VILLE DU VIN	Al. Tocantins, 75, Lj. 2, Alphaville -SP	www.villeduvin.com.br	(011) 4208-6061
VILLE DU VIN	Avenida Portugal, 749, Santo André -SP	www.villeduvin.com.br	(011) 4994-9490
VINCI	Rua Siqueira Cardoso, 227, Mooca -SP	www.vincivinhos.com.br	(011) 6097-0000
VINEA STORE	Rua Manuel da Nóbrega, 1014, Paraíso - SP	www.vineastore.com.br	(011) 3059-5200
VINISSIMO IMPORTAÇÃO EXPORTAÇÃO E COMÉRCIO LTDA	Avenida Dr Marcos Penteado de Ulhôa Rodrigues, 1.119 - Sala 1503 06460-040 - Barueri - SP		Fones: (011) 4195-5554/5547/5532
VINO!	Rua Professor Tamandaré Toledo, 51, Itaim Bibi -SP	www.lojavino.com.br	(011) 3078-6442
WORLD WINE	Rua da Alfândega, 182, Brás -SP	www.worldwine.com.br	(011) 3383-7477
WORLD WINE	Rua Padre João Manuel, 1269, Jardim Paulista -SP	www.worldwine.com.br	(011) 3085-3055
WINE COMPANY	São Paulo	www.winecompany.com.br	0800 725 8020
ZAHIL	Rua Manuel Guedes, 294, Itaim Bibi -SP	www.zahil.com.br	(011) 3071-2900
ASTI VINHOS	Rua Barreto Leme, 1804 Cambuí - Campinas/SP		(019) 3252-2519
BALCÃO BEBIDAS	Rua Carolina Florence, 1234 - Vila Nova - Campinas/SP	www.balcaodebebidas.com.br	(019) 3242-6300
EMPÓRIO D'GUSTTA	Rua Coronel Silva Telles, 246 - Cambuí - Campinas/SP	www.campinas.com.br	(019) 3254-5711
EMPÓRIO MICHELUTTI	Rod. Don Pedro I, Km. 131,5 - Campinas/SP	www.emporiomichellutti.com.br	(019) 3207-4241
EMPÓRIO DI PIETRO	Av. Dr. Antônio Carlos Couto de Barros, 1101, loja 8 - Sousas - Campinas/SP	www.emporiodipietro.com.br	(019) 3258-6244
FOODWINE GRAND CRU CAMPINAS	R. Dr. Sampaio Ferraz, 336 - Cambuí - Campinas/SP	www.foodwine.com.br	(019) 3252-4311
TOKAY VINHOS	Al. Dos Vidoeiros, 455	www.tokayvinhos.com.br	(019) 3295-1994
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www.ttb.gov

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Home Page: http://www2.desenvolvimento.gov.br/sitio/secex/secex/

American Chamber of Commerce
The American Chamber of Commerce is another good source for information on doing business in Brazil. The Chamber offices in Brazil are:

São Paulo
Rua da Paz 1431 CEP 04713-001 - São Paulo SP - Brasil
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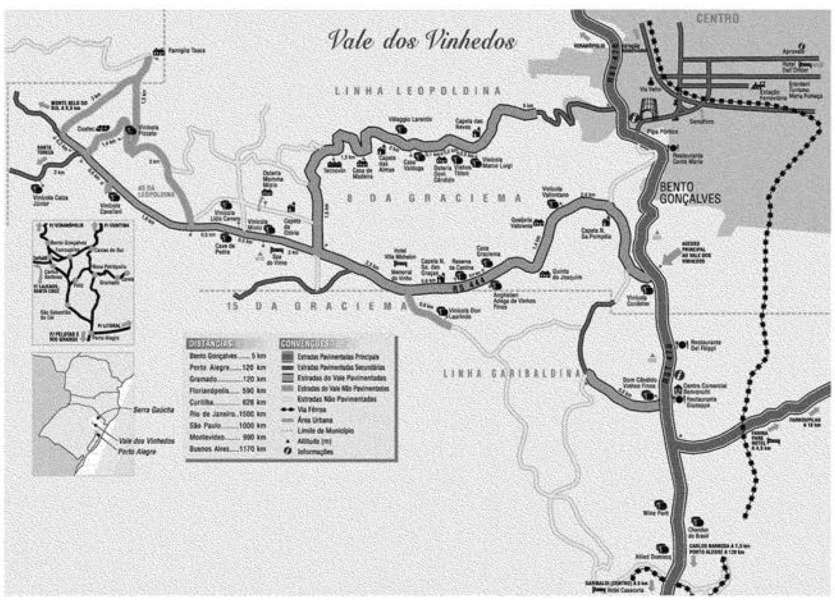
ACKNOWLEDGEMENTS

The data for this study comes from many contributors. We acknowledge that those studies, reports, articles and graphics which are used in this study enrich the benefits to the reader. The work of USDA's Foreign Agriculture Service's Trade Offices in preparing multiple Global Agriculture Information Network (GAIN) reports and IBRAVIN, the Brazilian Wine Institute, provided significant resources for the authors. We also wish to thank our colleagues from the World Wine Trade Group who provided insights and advice about the Brazilian market. And finally we thank the International Trade Division of the Alcohol and Tobacco Tax and Trade Bureau for their support and advice.



APPENDIX I

Portaria No. 229 dated 17 June 2010
Approved Oenological Practices
(Google Translated from Portuguese Text)
NOTE: These regulations subject to change after publication of this Report.

MINISTRY OF AGRICULTURE, LIVESTOCK AND SUPPLY
SECRETARIAT OF AGRICULTURE
ORDINANCE No. 299 OF 17 JUNE 2010

Note: Ordinance on Public Consultation

SUBSTITUTE SECRETARY OF DEFENSE AGRICULTURE, MINISTRY OF AGRICULTURE, LIVESTOCK AND SUPPLY, in exercise of the powers conferred upon him by art. 10 and 42 of Annex I of Decree No. 7127 of March 4, 2010, in view of the provisions of Law No. 9784, January 29, 1999, and the provisions of Case No. 21000.006291/2007-02, decides:

Article 1 Submit to public consultation for a period of sixty (60) days from the date of publication of this Ordinance, Project Instruction approving the List of oenological practices lawful.
Paragraph 1. The Project Normative attachment is available on the website of the Ministry of Agriculture, Livestock and Supply: www.agricultura.gov.br, link law, submenu Ordinances on Public Consultation.

Article 2 The purpose of this public consultation is to enable wide dissemination of the proposed Education Regulations, to receive suggestions of agencies, entities or persons involved.

Article 3 The suggestions mentioned in art. 1, technically based, should be sent, preferably to the email address: dvd@agricultura.gov.br or to the address:

Ministry of Agriculture, Livestock and Supply - MAPA
Inspection Department Products Vegetable - DIPOV
General Coordination of Wine & Spirits
CGVB, Esplanada dos Ministerios
Block D - Annex B - Room 333 - CEP 70043-900
Fax 55 (61) 3224 8961

Article 4 This Ordinance shall enter into force upon its publication.

JOSE LEAL Guilherme TOLLSTADIUS

* * *

ANNEX

In NORMATIVE PROJECT, OF, 2010.
THE MINISTER OF AGRICULTURE, LIVESTOCK AND SUPPLY, using the powers conferred upon her art. 87, sole paragraph, item II of the Constitution, and bearing in mind the provisions Law No. 7678 of 8 November 1988, Decree No. 99066 of March 8, 1990, and the provisions of Case No. 21000.006291/2007-02, decides:

Article 1 Approve the list of oenological practices.

Section I
General Provisions

Article 2 For purposes of this Instruction the following definitions apply:

I - oenological practice, process technology, physical, chemical or biological employee at any stage of or the wine derived from grapes and wine;
II - the base wine, must or wine for making foam, which can be made:
a) a base wine;
b) for wine, or
c) by cutting or assemblage of must or wine base or both.
III - made of foam: alcoholic fermentation in airtight container in order to retain the carbon dioxide generated during fermentation.
IV - tirage liqueur, prepared consisting of wine and sugar, and sugar can be replaced wholly or partly of grape must or concentrated must.
V - expedition liqueur, prepared to be added after the sparkling wine made of foam, before the permanent closure of the bottle tightly closed or tank before bottling.
a) the liquor shipment shall consist of wine and sugar, and sugar can be partially or completely replaced by grape must or concentrated grape juice or a mixture of both and, eventually be added to the wine distillate.

Article 3 The products used in oenological practices shall comply with the conditions of use and the Winemaking analytical specifications of the Codex International and its manufacture should be authorized by competent body.

Article 4 will be a general requirement that the product used to use oenological practices admitted not change the sensory characteristics of the natural end product, except as specified this Instruction and in specific legislation.

Article 5 shall be prohibited any manipulation or treatment intended to modify the characteristics original product in order to hide defects or changes.

Article 6 For the purposes of oenological practices provided in this Instruction, which require use of additives or adjuvants technology or other substance of chemical or biological employed in producing the product should be observed the projected utilization for wine and the grape and wine, as well as the maximum allowed, according to specific legislation.

Article 7 The oenological practices provided in this Instruction should be performed with the monitoring of the technical manager of the establishment.

Article 8 For the purposes of oenological practices provided in this Instruction should be complied with the requirements of the International Organization of oenological practices International Vine and Wine, last edition, when they have not been established in this Instruction Standards.

Article 9 The oenological practices provided for table wine shall apply by analogy to the base wine foaming and should be subject to the exceptions set forth in this Instruction and legislation specific.

Section II
Oenological practices allowed the grapes to Industrialization

Article 10. Screening or selection of grapes is to:
I - separate the berries unsuitable for winemaking, or
II - classify grapes according to the degree of maturation.

Article 11. Crush the film is to break the berries and crush them in order to release the must for:
I - ensure the dissemination of the shell elements soluble in the wort, and
II - to facilitate the multiplication of yeasts.

Article 12. Stalk consists of separating the berries from the stalk in order to reduce the loss of color and alcohol in red wine and make it less rich and less undesirable astringent tannins.

Article 13. Egouttage or exhaustion is to leave the crushed grape juice drain before pressing, for a wine with less substance coming from the grapes, skins and seeds.

Article 14. Pressing is to press the grapes and the bark to extract the liquid part. The pressing can be performed in whole grapes or grape previously de-stemmed and crushed.

Article 15. Maceration is to retain the solid part of the grapes in contact with the must in order to promote the dissolution of substances present in the film Berry.
§ 1 is to keep traditional maceration for a period, the solid part in contact with the net, after stripping and crushing.
§ 2 The carbonic maceration is to keep the whole grape in closed tank for a few days rich atmosphere containing carbon dioxide.
§ 3 The hot mash is to heat the whole grapes or stalked or crushed by a period of time, before fermentation in order to quickly extract and materials more efficiently dyes and other substances in the film, being forbidden the heating steam injection Direct.
§ 4 The Cold maceration is to cool the whole grapes or stalked or crushed before pressing or fermentation depending on the type of wine, in order to facilitate the extraction of constituents of the film and to increase the aromatic complexity and taste of wine.
§ 5 The mash is to add sulfur sulfur dioxide or its salts to the mash with the sulphited must aim to produce for the development of the grape.
§ 6 During the grape maceration enzyme may be added in order to facilitate the acquisition wort, débourbage operations, extraction of the pigments and polyphenols and extraction aromas and aromatic precursors Film Berry.

Article 16. Enrichment involves increasing the sugar content of grapes harvested, until the desired level, through the following procedures:
§ 1 Passificação:
I - Natural: exposure of grapes on a surface or suspended during the time under the sun or in shaded naturally ventilated enclosure, and
II - Forced: maintenance of the grapes in climate-controlled air circulation and dry or dehydrated, eventually warmed up.
§ 2 selective screening is to select the grapes, from grapes and berries of grapes mature.
§ 3 Cryo concentration is to partially freeze the grapes followed by a whole pressing the low temperature.

Article 17. Antioxidant treatment is to add the antioxidant grape, with the aim of:

I - For microbiological control by limiting or preventing the multiplication of yeasts and bacteria technologically undesirable, and

II - to protect the subjects of the aromatic grape from the influence of oxygen from air.

Section III
Oenological practices allowed for Musts

Article 18. Aeration or oxygenation is to add air or gas to the wort in order to reduce the content of phenolic compounds and increase the stability of the color of the wine.

Article 19. Antioxidant treatment with antioxidants is to add the wine, in order to:

I - get antiseptic;
II - to protect the wine from the action of oxygen;
III - select the yeasts;
IV - to facilitate the débourbage;
V - to promote the dissolution of anthocyanins;
VI - to regulate and control the fermentation;
VII - to protect the aromatics of the grape;
VIII - to limit the formation of ethanal, during fermentation, and
IX - to limit the formation of hydrogen sulfide and volatile thiols source fermentation.

Article 20. Acidification is to increase the total acidity and reduce the pH of the must with the purpose of:

I - to prepare balanced wines from the point of view of taste;
II - to promote good conservation of biological evolution and wine;
III - to promote the ripening process of the wine;
IV - failure to correct the acidity due to natural causes, and
V - For the production of acids during fermentation.

§ 1 The acidification of the wort can be accomplished as follows:

I - by cutting with higher acidity of musts;
II - with the help of strong cation exchange resins or free form;
III - by the use of chemicals or
IV - for microbiological acidification.

§ 2 The addition of the acidulant wort may also be aimed at reducing the level of calcium.

§ 3 The use of inorganic acids for acidification.

§ 4 The initial acidity of the wort should be increased by at most one point five grams of per liter of tartaric acid.

Article 21. Deacidification of reducing the total acidity and increase the pH of the must with the purpose of:

I - more balanced composition of wines from the point of view of taste;
II - for stability with respect to the precipitation of potassium tartrate and calcium tartrate;
III - to promote the biological deacidification, and
IV - to obtain partial degradation of malic acid.

§ 1 The acidification may be carried out as follows:

I - by the spontaneous precipitation of tartaric acid;
II - by cutting with lower acidity of musts;
III - by the use of heat treatment (cold);
IV - the microbial degradation of malic acid;
V - the use of chemicals, or
VI - with the help of anion exchange resins.

§ 2 The acidified wine from wine must contain at least one gram per liter of acid tartaric.

Article 22. Débourbage desborre or is the separation of suspended solids in order to:
I - eliminate earthy and organic particles;
II - to reduce the indigenous microbial flora, and
III - reduce the amount of colloids and turbidity.

Paragraph 1. The débourbage can be performed:
I - static, by spontaneous sedimentation or with the aid of approved substances, or
II - Dynamics, by filtration or centrifugation.

Article 23. Clarification is the use of chemical and physical processes in order to obtain musts clear and stable.

§ 1 Collage is the addition of substances to the wort, and provide clarity and stability, improve their gustatory properties.
§ 2 Filtration involves passing the wort through appropriate filters to remove particles in suspension, with the help of substrates or not.
§ 3 For the clarification of wine, may still be used substances with a view to:

I - reduce or eliminate the amount of oxidized polyphenolic compounds or subject to oxidation;
II - to reduce the astringency of the wort before fermentation;
III - eliminate insoluble particles;
IV - to facilitate the cleaning of the new wines by the partial precipitation of protein substances;
V - to facilitate the bonding of wines;
VI - to prevent protein breakdown and cuprous;
VII - correct the sensory characteristics of wines from musts altered by fungi undesirable;
VIII - to eliminate any contaminants, and
IX - correct color of the grape.

§ 4 enzymes may be used to help clarify.

Article 24. Partial dehydration or concentration of the wort is to eliminate certain amount of water wine in order to:

I - increase the concentration of sugar in the wort;
II - to produce concentrated must, or
III - For the enrichment of wine.
§ 1 The partial dehydration or concentration of the wort can be obtained through the following procedures:

I - reverse osmosis or reverse: the must pass specific membrane under the action of a pressure higher than the osmotic pressure of the wort;
II - partial vacuum evaporation, vacuum heat subjected to sharp;
III - partial evaporation under atmospheric pressure: evaporation system at atmospheric pressure, or
IV - cryo concentration: partial freeze and elimination of the ice formed.

§ 2 The concentration can not lead to a reduction of more than twenty percent of the initial volume or increase by more than two percent of the initial potential alcohol content wine.

Article 25. Désulfitation is to eliminate or reduce the amount of sulfur dioxide initially added to the wort through the physical process in order to make it fit the development of different products and allow the fermentation of grape must.

Article 26. Flotation involves injecting gas into the wort in order to drive the surface particles and microorganisms in order to:
I - rapid clarification of the wort, with or without the addition of clarifiers;
II - to reduce the population of native or indigenous microorganisms prior to fermentation to further growth of selected yeasts;
III - make the clarification continuous and regulate the amount of material to be eliminated, and
IV - carry out eventually oxygenation during clarification.

Article 27. Enzymatic treatment is to add enzymes to the must, in order to help filtration and help to reveal the aromatic potential of grapes.
Paragraph 1. The enzymatic treatment may be used as an aid to other oenological practices when provided.

Article 28. Démetalization is to add substance to the must in order to reduce concentration of metals present in the must from contamination and, consequently, prevent defects caused by high levels of metals.
§ 1 demethylation may be accomplished by the use, combined or not, glue and substances
chemical.
§ 2 The use of hydrochloric acid as an aid in the process of desmetalização is prohibited.

Article 29. Mutage is to add alcohol wine alcohol, wine or distilled spirits alcohol simple wine or grape marc and lees or potable ethyl alcohol of agricultural origin, together or separately in the must or grape must in fermentation, in order to stop the fermentation and consequently, make products derived from grape and wine according to its standard identity and quality.

Paragraph 1. The prevention of alcoholic fermentation can also be obtained by adding the mash the gas pressure.

Article 30. Pasteurization involves heating the juice at a temperature and for a certain period in order to interrupt the activity of microorganisms and enzymes become inactive in the wort.

Article 31. Treatment with an inert atmosphere is to create an inert atmosphere by adding gas to the wine, to keep them under air and therefore prevent oxidation or the development of undesirable microorganisms.

Paragraph 1. It is forbidden the use of inert gases for the treatment of wines.

Article 32. Control of malolactic fermentation is to add substance to the must in order to control the growth and activity of bacteria responsible for malolactic fermentation, as well as to reduce the rate of sulfur dioxide.

Article 33. Correction or enrichment of musts is to correct the deficiency of the sugar content of the wine due to the unfavorable conditions of ripeness of the grapes for wine-making, through following:

I - addition to the mash of sucrose (sugaring), alcohol, wine, grape must or rectified concentrated must concentrated, and

II - partial dehydration of grape must.

Paragraph 1. The fix provided in this Article shall respect the maximum limit established by legislation.

Article 34. Alcoholic fermentation is to convert grape sugar into ethanol, carbon dioxide and secondary products aimed at making wine or derived from the grape or wine.

§ 1 The alcoholic fermentation can occur spontaneously through natural yeast present in the film or the berries in the must or by treatment with selected yeasts, before or during fermentation, with the aim of:

I - induce, regulate or accelerate the fermentation in the case of very slow vinification;

II - to revive a stopped fermentation, or

III - to facilitate the depletion of sugar.

§ 2 can be added to the wort before or during fermentation, fermentation activators, with order to:

I - to promote the initiation or completion of alcoholic fermentation and by nutrient enrichment growth factors or inhibitors by adsorption of yeast.

II - accelerating the fermentation;

III - decrease the formation of substances capable of combining with sulfur dioxide during the fermentation;

IV - to prevent or treat the termination of fermentation, and

V - to facilitate the completion of slow fermentation.

§ 3 The introduction of air into the must or crushed grapes at the beginning of the fermentation can also be a practice adopted to encourage the growth of yeast and fermentation and enable transformation full of fermentable sugars.

§ 4 The fermentation can be interrupted by physical process with the aim of generating a product with the remaining grape sugar. To do so will be allowed the following:

I - heat treatment (heat or cold);

II - filtration, and

III - spin.

Article 35. Procedure to limit the foam is to dominate the foaming during alcoholic fermentation of must by means of microbiological process, with physical or chemical order to:

I - avoid losses by overflow, and

II - to enable better capacity utilization of the fermentation tank.

Article 36. Fermentation in wooden barrels is to conduct the alcoholic fermentation and eventually, the malolactic fermentation of wine in wooden containers with a capacity equal to or less than six hundred liters, with the aim of:

I - to promote natural physical and chemical mechanisms that lead to the enrichment of wine substances provided by the wood;
II - allow organisms to make the transformation of substances provided by the timber, and
III - to encourage the migration of compounds from yeast for wine by autolysis, the more contact strait between the sediment and the wine.

Article 37. Maceration post-fermentation maceration is to extend the end of alcoholic fermentation musts and can be enhanced with the use of heat, in order to:

I - complete the release of constituents of grape skins resulting from the pre-fermentation maceration, and
II - to improve the poly-phenolic structure and color of wines.

Section IV
Oenological practices allowed for Wines

Article 38. Acidification is to increase the total acidity and reduce the pH of wine with purpose of:

I - to prepare balanced wines from the point of view of taste;
II - promote good conservation of biological evolution and wine;
III - to promote the ripening process of the wine;
IV - failure to correct the acidity due to natural causes, and
V - lower the pH of the wine.

§ 1 The acidification of wine can be made as follows:
I - by cutting wines with higher acidity;
II - with the help of strong cation exchange resins or free form, or
III - by the use of organic acids.

§ 2 The addition of acidulant wine can also be aimed at reducing the level of calcium.
§ 3 The use of inorganic acids for acidification.
§ 4 The initial acidity of the wine can be increased by no more than two point five grams of per liter of tartaric acid.
§ 5 When the must and wine are acidified increasing acidity should be a maximum of two and five tenths of grams per liter of tartaric acid.

Article 39. Deacidification of reducing the total acidity and increase the pH of wine, with purpose of:
I - For balanced wines from the point of view of taste;
II - for stability with respect to the precipitation of potassium tartrate and calcium tartrate;
III - to promote the biological deacidification, and
IV - to obtain more biologically stable wines.

§ 1 The acidification may be carried out as follows:
I - spontaneously, by the precipitation of tartaric acid or malic acid degradation;
II - by cutting wine with less acidity;

III - by the use of cooling;
IV - with the help of ion exchange resins;
V - the use of chemicals, or
VI - a microbiological process.

§ 2 The acidified wine must contain at least one gram per liter of tartaric acid.

Article 40. Clarification is the use of chemical and physical processes aimed at making wine clear and stable.

§ 1 Collage is the addition of chemicals to wine in order to:

I - complete spontaneous clarification;
II - red wines soften eliminating part of its tannins and polyphenols, and
III - to clarify cloudy wines.

§ 2 Filtration involves passing the wine through appropriate filters or substrates, such as land boards and membranes to remove particles in suspension in order to provide clarity and stability organic wine to the elimination of microorganisms.

I - the board should be made of suitable material, and
II - the membrane must have a porosity less than two tenths of a micron and equal to or
less than sixty-five hundredths.

§ 3 is to transfer racking wine from one container to another to allow the separation of the liquid and solid deposits, therefore:

I - separate the wine from the sludge and deposits from adding clarifiers;
II - to separate the wine at the end of microorganisms or malolactic fermentation, or amendments caused by bacteria or yeast;
III - to allow the implementation of all winemaking operations, processing and transport of wines, and
IV - allow tartaric stabilization and separation of tartrate crystals.

§ 4 For the clarification of wine, may still be used substances in order to:

I - coagulation of glue added to the wine;
II - to facilitate the cleaning of new wines by the partial precipitation of protein substances;
III - to facilitate the bonding;
IV - correct the sensory characteristics of wines from musts altered by fungi undesirable;
V - remove any contaminants, and
VI - to correct the color of wines.

§ 5 may be used enzymes to aid clarification.
§ 6 is prohibited clarification to correct the color of the wine when the wine that has led been subjected to the same practice.

Article 41. Enzymatic treatment is to add enzymes to the product, with the aim of:

I - to help reveal the aromatic potential of wine from the precursors from the grape;
II - to facilitate the release of soluble constituents of yeasts;

III - to improve the colloidal stability of the wine, and
IV - reduce the rate of urea to prevent the formation of ethyl carbamate during aging.

Paragraph 1. The enzymatic treatment may be used as an aid to other oenological practices when provided.

Article 42. Démetalization is to add substance to the wine in order to reduce the content of metals present in wine from contamination and therefore prevent the defects caused by high levels of metals.

§ 1 demethylation may be accomplished by the use, combined or not, glue and substances chemical.
§ 2 The use of hydrochloric acid or other inorganic acid as an aid in the process of Démetalization is prohibited.

Article 43. Tartaric stabilization is the adoption of procedures aimed at achieving stability tartaric wines. The tartaric stabilization can be achieved:

I - by electrodialysis;
II - with the aid of cation exchange resins;
III - through cooling;
IV - the use of chemicals, or
V - the use of substances of biological origin.

Article 44. I certify with wine is to supplement the storage container to compensate for the natural losses, in order to avoid contact with air the wine and, consequently, the oxidation or the development of aerobic microorganisms.

Article 45. Biological stabilization is to use physical or chemical processes, together or separately, to kill or inhibit the growth of unwanted microorganisms and obtain biological stability of wine containing fermentable sugars in the bottle.
Paragraph 1. May be used the following procedures:

I - Pasteurization;
II - filtration, and
III - treatment with inhibitors of undesirable microorganisms.

Article 46. Antioxidant treatment with antioxidants is to add the wine in order to protect it from the action of oxygen.

Article 47. Malolactic fermentation corresponds to the degradation of malic acid present in wine prepared by the action of lactic acid-producing bacteria.
Paragraph 1. The malolactic fermentation can be induced, aided or inhibited by the addition to wine substances authorized by specific legislation.

Article 48. PEI is to add wine spirits from wine to wine, wine alcohol, alcohol potable ethyl alcohol of agricultural origin or simply distilled wine or grape marc or lees, in together or separately, aiming at the preparation of liqueur wine, wine and other beverages made alcohol derived from grapes and wine, according to their respective standards of identity and quality.

Article 49. Flavoring is to add aromatic substances to wine and the grape and wine, when provided in the standard of identity and quality, with the aim of improving their sensory characteristics or to provide new features.

Article 50. Court or assemblage consists in mixing different wines with the goal of producing wines physicochemical and sensory characteristics desired.

Article 51. Bottling heat is to bottle the wine warmed and close the bottle immediately in order to promote stability and physical organic chemistry and wine elimination of oxygen.
Paragraph 1. The heating temperature can not exceed forty-five degrees Celsius.

Article 52. Aeration is to introduce air or specific gas to wine in order to reduce the content of iron and remove any traces of hydrogen sulfide in the wine.
Paragraph 1. Removing the bad smell or taste due to hydrogen or sulfur derivatives can be done with the help of substance authorized by specific legislation.

Article 53. Partial dehydration or concentration of the wine is to concentrate the wine by removing endogenous water in order to increase the alcoholic strength of wine.

§ 1 The partial dehydration or concentration of the wine can be obtained through the following procedures:

I - reverse osmosis or reverse: the must pass specific membrane under the action of a pressure higher than the osmotic pressure of the wort;
II - partial vacuum evaporation, vacuum heat subjected to sharp;
III - partial evaporation under atmospheric pressure: evaporation system at atmospheric pressure, or
IV - create concentration: partial freeze and elimination of the ice formed.

§ 2 It is prohibited to partial dehydration of wine when the wine that gave rise have been submitted the same practice.
§ 3 The concentration can not lead to a reduction of more than twenty percent of the initial volume or increase more than two percent of the initial alcohol content of wine.

Article 54. Maturation in wooden vessel is to pack the wine in wooden barrels appropriate, with a maximum capacity of six hundred liters (maturation), in order to:

I - get a natural evolutionary process of wine, with the development of their characteristics sensory;
II - to promote the physical and chemical mechanisms due to natural oxygen intake and the progressive substances provided by the timber, and
III - to obtain physical-chemical stabilization of all or part of the wine.

Article 55. Thinning is to put the wine in contact with wood during a period determined by the addition of wood chips of the species Quercus sp. With the aim of pass the wine, constituents from the oak.

§ 1 The oak chips must meet the following requirements:

a) be used fresh or roasted, without having sustained combustion;
b) not be added to products to increase their natural flavor or their extractable phenolic compounds;
c) has not undergone any chemical, enzymatic or physical, except the towers:

d) provide particles having a size such that at least ninety-five per cent by weight are retained sieve with a mesh of two millimeters.

§ 2 The use of oak powder.
§ 3 The wines produced with the addition of pieces of oak wood may not present in designations for the labeling period of maturation or aging.

Article 56. Dealcoholisation part is to eliminate a portion of wine ethanol.
§ 1 dealcoholisation is prohibited for wines made from musts that have been submitted to practice of enrichment or correction of wine and wine provided partial dehydration, respectively, in the arts. 33 and 53 of this Instruction.
§ 2 The alcohol content of wine can be decreased by no more than two percent by volume.

Article 57. Dealcoholisation total wine is to eliminate ethanol from wine with the aim of de-alcoholised produce fermented grape.

Article 58. Softening or sweetening of wines is to add the sweetener to wine order to obtain wines of varying sweetness from a dry base wine.

Paragraph 1. For sweetening may be added to wine:
I - sucrose in solid form;
II - concentrated grape must;
III - rectified concentrated must, or
IV - the mixture of one or more products defined in items I, II and III.

Article 59 maturation or aging in the bottle is to keep the wine in bottles stored in appropriate place, in order to keep the wine in contact with the warehouse to improve their sensory characteristics.

Article 60. Carbonation is to add carbon dioxide to the wine or derived from the grape and wine aiming at the elaboration of sparkling wine, sparkling wine or other derived from the grape and wine that gasification is expected to default on their identity and quality.

Article 61. Color correction is to add dye derived from the grape and wine, as provided for in its standard of identity and quality, aiming to strengthen its natural color.

Section V
Ooenological Practices Allowed For Sparkling Wines And Aerated Semi-Course

Article 62. Tirage is to introduce the bottle fermentation tank or in hermetically sealed (Autoclave) the base wine and liquor mixed with the circulation, in order to trigger the second fermentation with a view to making foam.
Paragraph 1. To the mixture of base wine and liquor can be added tirage yeast, clarifier and activator of fermentation, together or separately, in order to facilitate the multiplication of yeasts and trigger the second fermentation.

Article 63. Taking foam is to conduct the alcoholic fermentation of wine based on container tightly sealed bottle or tank fermentation, with the goal of developing sparkling wine sparkling or saturation pressure of carbon dioxide endogenous.

Article 64. Maturation in the bottle is to keep the bottles stored in order to encourage fermentation and keep the wine in contact with the deposit to facilitate fermentation for wine sparkling and sparkling.

Article 65. Remuage is to cause the precipitation and gather in the bottle, the deposit formed during the making of foam, through the provision and operation of the bottle holder.

Article 66. Disgorging is to eliminate the deposit collected on the seal of the bottle during remuage, in order to ensure the clarity of the sparkling wine or sparkling.

Article 67. Clarification is required to ensure the clarity of the sparkling wine and sparkling wine. For clarification of sparkling wines and sparkling can only be used following, isobarometric conditions:

I - racking;
II - spin, or
III - filtration.

Article 68. Bottling isobarometric is to bottle the sparkling wine or sparkling prepared hermetically sealed in a tank or autoclave, with the possible addition of expedition liqueur.

§ 1 In isobarometric bottling is forbidden to use carbon dioxide to counter.

§ 2 The addition of expedition liqueur may increase the alcoholic sparkling wine in the
more than half a percent by volume.

Section VI
Final Provisions

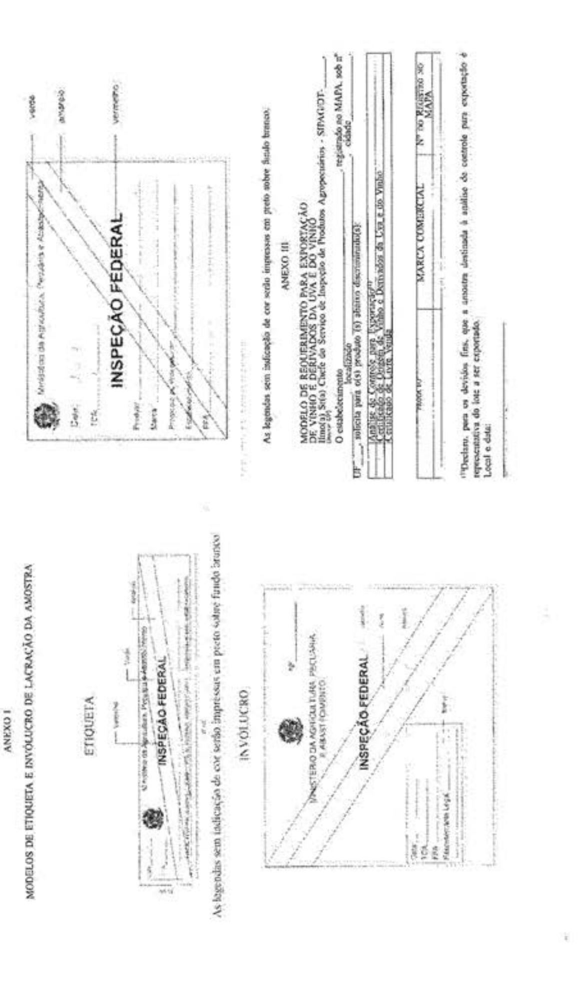
Article 69. It is established within 90 (ninety) days for the necessary adaptations to changes compliance with this Instruction.

Article 70. This Instruction shall enter into force upon its publication.

WAGNER ROSSI
D.O.U., 18/06/2010 - Section 1

APPENDIX II

MAPA MODEL FORMS – ANNEX III CERTIFICATE



ANEXO I

MODELOS DE ETIQUETA E INVÓLUCRO DE LACRAÇÃO DA AMOSTRA

ETIQUETA

INSPEÇÃO FEDERAL

As legendas sem indicação de cor serão impressas em preto sobre fundo branco

INVÓLUCRO

MINISTÉRIO DA AGRICULTURA, PECUÁRIA E ABASTECIMENTO

INSPEÇÃO FEDERAL

Ministério da Agricultura, Pecuária e Abastecimento

INSPEÇÃO FEDERAL

verde

amarelo

vermelho

As legendas sem indicação de cor serão impressas em preto sobre fundo branco.

ANEXO III

MODELO DE REQUERIMENTO PARA EXPORTAÇÃO DE VINHO E DERIVADOS DA UVA E DO VINHO

Ilmo(a) Sr(a) Chefe do Serviço de Inspeção de Produtos Agropecuários - SIPAG/DT-

O estabelecimento ___ registrado no MAPA, sob nº ___

localização ___ cidade ___

UF ___ solicita para o(s) produto (s) abaixo discriminado(s):

Análise de Controle para Exportação
Certificado de Origem de Vinho e Derivados da Uva e do Vinho
Certificado de Livre Venda

PRODUTO	MARCA COMERCIAL	Nº DO REGISTRO NO MAPA

Declaro, para os devidos fins, que a amostra destinada à análise de controle para exportação é representativa do lote a ser exportado.

Local e data:

BIC

Brazil Industries Coalition

Written Statement of the Brazil Industries Coalition

Hearing on "U.S. –Brazil Trade and Investment Relationship: Opportunities and Challenges"

House Ways and Means Subcommittee on Trade
June 26, 2013

818 18th Street, NW, Suite 630 – Washington, D.C. 20006 – T: (202) 471-4020 • F: (202) 471-4024
www.bic-us.org • bic@bic-us.org

Introduction

The Brazil Industries Coalition (BIC) was founded in 2000 as an independent, non-profit organization, dedicated to representing the Brazilian private sector.

As an advocacy organization registered under the Lobbying Disclosure Act, headquartered in Washington, D.C., BIC is the only entity in the U.S. which maintains exclusive representation of Brazilian companies and business associations.

BIC has a unique structure of activities focused on defending the common interests of the Brazilian private sector in the United States. Currently, BIC is composed of major corporations and industrial organizations from various sectors with investments in the United States, representing a large percentage of the Brazilian private sector.

Mission

As the Brazilian private sector representative in the nation's capital, our mission is to advocate on behalf of our members before the U.S. Congress and the Executive Branch. Our task is to promote a strategic partnership between Brazil and the United States through deeper economic and political ties that strengthen and further the competitive advantage of Brazilian enterprises. Our responsibility is to serve as the voice of the Brazilian private sector in Washington, D.C. and be recognized as a highly-regarded, first-rate organization which reflects the values of its members.

Work Agenda

BIC's work agenda is divided into three main parts: 1) institutional relationships, 2) governmental engagement, and 3) member services and information.

Our organization participates in a broad network of key institutions involved in the process of U.S. trade policy formulation. Our objectives are to reduce the distance between our members and U.S. decision-makers, monitor topics of interest to businesses and trade associations in Brazil, and alert our members about proposed rules and legislation that may impact the Brazilian private sector.

BIC also works in coordination with the Brazilian Embassy of Washington, D.C. and maintains a close dialogue with the U.S. Executive and Legislative Branches of the U.S. government.

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It is worth noting that BIC does not formulate policy but acts instead as an executor of the policies that are developed by its members. These policies are guided by the Brazilian National Confederation of Industries, a key member of BIC.

BIC's priority issues include a vast array of topics in the bilateral agenda which range from trade, investment, labor to the environment, including:

1. Bilateral investment treaty (BIT);
2. Bilateral tax treaty (BTT);
3. Resolution of the WTO cotton case;
4. Instruments of trade defense (targeted dumping, zeroing);
5. Farm bill;
6. Exchange rate debate (China);
7. Energy policy (ethanol, renewables, petroleum and shale gas);
8. U.S. Trade policy (GSP, MTB, TPA, ITA, services, TPP, TTIP, etc.);
9. Government procurement policy;
10. Climate change policy;
11. Consumer protection;
12. Industrial policy (National Infrastructure Bank proposal, etc.);
13. Intellectual property rights protection (IPR, Special 301);
14. International labor rights (DOL reports);
15. WTO's Doha round;
16. Taxes on foreign capital;
17. Visas;
18. Trade facilitation initiatives (mutual recognition of C-TPAT and Brazilian AEO);
19. Brazil-U.S. technical cooperation (standards, eco-labeling, biotech, etc.)
20. Food Safety Modernization Act (FSMA) implementation

Aside from the above-mentioned topics, BIC also monitors, and to the extent possible, contributes to the major bilateral Dialogues between the two countries, such as the Commercial Dialogue, the Brazil-U.S. CEO Forum, the Strategic Energy Dialogue, Defense Dialogue, Scientific Mobility Program, the Aviation Partnership, and the work on the Agreement on Trade and Economic Cooperation (ATEC), to name a few.

We support the notion of streamlining the bilateral engagements between both countries as long as the integrity, relevance, and results of each dialogue are maintained, with the intent of reducing fragmentation in current discussions and promoting increased cohesiveness. BIC remains open to discussing Congressional proposals that would present a mechanism of positive engagement covering areas of mutual interest.

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BRAZIL INDUSTRIES COALITION · BIC ·

2013 Priorities for the U.S. Congress

There are several pressing issues facing the U.S. Congress this year that are of critical importance to the bilateral relationship. Below we highlight the most important recommendations for 2013:

- **Resolution of the World Trade Organization (WTO) Cotton Case through the Farm Bill**

  Enacting a new Farm Bill that complies with U.S. commitments under the WTO agreement is of utmost importance for the settlement of the Brazilian cotton case. Until a new Farm bill is approved by Congress, we strongly recommend that the U.S. maintain the 2010 Brazil-U.S. temporary agreement, without defaulting on payments to Brazil. There was dismay over the failure of the House of Representatives to approve the Farm Bill during recent floor consideration. However, we remain hopeful that a concrete solution is still possible prior to the current Farm Bill's expiration on September 30, 2013.

- **Renewal of the Generalized System of Preferences (GSP)**

  The U.S. Generalized System of Preferences will soon expire on July 31, 2013 and few remaining legislative days are left to approve the measure. In the past, GSP expired and was later renewed retroactively. While we applaud efforts to renew this very important preference program, the uncertainties caused by the program's likely expiration before renewal will negatively impact Brazilian exporters and U.S. importers alike. The program continues to benefit less-developed regions in Brazil but has also become an important part of the U.S. economy as companies are increasingly more integrated through supply chains.

  In 2012, Brazil was the third largest user of the program, exporting US$2.3 billion to the U.S. under GSP, trailing behind Thailand and India.

  We urge Congressional renewal of GSP benefits as soon as possible in order to avoid interruption of the program.

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- **Brazil-U.S. Global Entry Pilot and Visa Waiver**

  BIC strongly supports the launch of a Brazil-U.S. Global Entry Pilot program this year, and the inclusion of Brazil in the list of eligible participating countries. Global Entry is a U.S. Customs and Border Protection (CBP) program that allows expedited clearance for pre-approved, low-risk travelers upon arrival in the United States.

  In addition to the Global Entry program, BIC urges Congress to approve legislation that would include Brazil in the U.S. Visa Waiver Program and obtain Brazilian government reciprocity to the U.S. These actions would help promote and facilitate business and leisure travel for Brazilians entering the U.S.

Brazil's State Visit and the Focus on a Positive Agenda

The Brazilian business community is looking forward to Brazilian President Dilma Rousseff's State Visit to the U.S., confirmed for October 23, 2013.

- **Launching an Information Technology and Innovation Partnership Dialogue**

  In preparation for the visit, there are many ongoing discussions about possible deliverables. BIC strongly supports the launch of an Information Technology and Innovation Partnership Dialogue during the presidential visit. Molded after the successful Brazil-U.S. Aviation Partnership, this dialogue would have far reaching benefits and would touch a vast number of sectors that involve information technology and innovation initiatives.

- **Trade Facilitation**

  BIC supports the implementation of the 2012 air cargo pilot project that aims to create a Green Lane linking the Miami International Airport to Brazilian Viracopos International Airport to expedite the clearance process for goods belonging to Brazilian and U.S. companies. The project allows for mutual recognition of both Authorized Economic Operators. BIC urges Congress to express support for this mutually beneficial project and calls for assistance in considering funding options for the U.S. Customs and Border Protection to administer the project in U.S. territory.

- **Discussions of a Brazil-U.S. FTA and Services**

  BIC supports the notion that the Brazilian and U.S. governments engage in relevant discussions about the potential benefits of a **bilateral free trade agreement** and to consider the options of negotiations given each country's international and regional commitments. On a multilateral basis, BIC also supports Brazilian engagement and consideration to participate in the **International Services Free Trade Agreement negotiations** which will involve 20 trading partners and the U.S. We recommend that at least, Brazil should be present in the negotiations in order to make informed decisions regarding further participation in these important negotiations.

- **Brazil Caucus**

  BIC has been a long-time supporter of the Brazil Caucus and applauds both Co-Chairs, Rep. Devin Nunes (R-CA) and Rep. Gregory Meeks (D-NY) on their efforts to revitalize the Caucus and maintain Congressional interest regarding the Brazil-U.S. trading relationship. BIC stands ready to continue engaging and contributing to relevant bilateral Brazil-U.S. discussions.

Long Term Objectives

- **Bilateral Tax Treaty**

  The launch of negotiations for a Bilateral Tax Treaty (BTT) remains one of BIC's long-term main priorities. BIC is pleased that the Brazilian Congress sanctioned in March of this year the Brazil-US Tax Information Exchange Agreement (TIEA), to which the U.S. formally agreed in 2007. The passage of TIEA legislation in Brazil, bilateral negotiations on the U.S. Foreign Account Tax Compliance Act (FATCA), and transfer pricing discussions, could pave the way for formal talks to begin. We highly encourage both Brazil and the U.S. to consider how best to move forward on this issue.

Conclusion

BIC looks forward to continued engagement with the U.S. Congress to put into practice the short and long-term goals outlined in this document. We believe these initiatives will greatly contribute to the strengthening of the strategic partnership between our countries.

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CNI

CNI
National Confederation of Industry
Brazil

CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

National Confederation of Industry – Brazil

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Written Statement of the
National Confederation of Industry – Brazil

To the United States House of Representatives Committee on Ways and Means Subcommittee on Trade

Regarding the hearing on
"U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges"

Submitted by

Carlos Eduardo Abijaodi
Director of Industrial Development
National Confederation of Industry – Brazil

June 11, 2013

National Confederation of Industry
Brazil

CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

Introduction

The National Confederation of Industry (CNI) is the voice of industry in Brazil representing more than 700,000 companies of all sizes, sectors, and regions, more than 1,000 sectoral trade associations, and all 27 Brazilian state-level Federations of Industries.

CNI is also the home of the Brazil Section of the Brazil-U.S. Business Council, the oldest and largest U.S.-Brazil bilateral private sector organization dedicated to strengthening the economic and commercial relationship between the two countries.

The U.S. Section of the Council is under the administrative aegis of the U.S. Chamber of Commerce, CNI's counterpart in the United States.

The United States is a priority for the Brazilian industry

The United States is a key partner of Brazil and CNI. The organization's recently launched Strategic Map—a roadmap to boost Brazilian industry competitiveness over the next decade—identifies the U.S. market as a priority for the manufacturing sector in Brazil.

In this context, CNI believes that the U.S.-Brazil trade and investment relationship presents both short and long-term opportunities that should be seized by the U.S. Congress in its effort to deepen the bilateral partnership.

The need to address short-term issues

In the short-term, there are three issues of congressional jurisdiction on which Congress can act to deepen bilateral trade and investment by securing a successful outcome.

Generalized System of Preferences (GSP)

The U.S. GSP is due to expire on July 31, 2013. CNI urges Congress to renew the program with the maintenance of Brazil as a beneficiary country. The renewal and maintenance of GSP does not diminish the need for a more ambitious bilateral framework as well as the Brazilian industry interest in a trade agreement with the United States.

While GSP was originally conceived as a tool to help developing countries strengthen and diversify their economy through exports to the U.S. market, and

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CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

while impoverished areas of Brazil still benefit from this original intent, the program also enhances the competitiveness of American industry. As a study by the U.S. Chamber of Commerce found, three-quarters of U.S. imports under GSP are raw materials, parts and components, or machinery and equipment used by U.S. manufacturers. GSP is also a powerful instrument to deepen corporate ties between the two countries, especially through intra-firm trade.

World Trade Organization (WTO) Cotton Case

Congress is currently debating the new Farm Bill, which is the proper legislative vehicle to settle the U.S.-Brazil WTO cotton dispute. CNI encourages Congress to pass a 2013 Farm Bill that brings the United States into compliance with its WTO obligations, thus removing the risk of WTO-authorized Brazilian trade retaliation against U.S. goods and intellectual property rights. In addition, CNI urges Congress to maintain the 2010 U.S.-Brazil temporary cotton agreement until the Farm Bill is passed, and to avoid the negative impact of the "sequester" on this agreement.

Visa-free Entry-facilitated Travel

Congress is currently considering options to promote business and leisure travel to the United States. CNI supports the approval of legislation to include Brazil in the U.S. Visa Waiver Program and secure Brazilian government reciprocity to U.S. citizens. In addition, CNI is urging launch of the U.S.-Brazil Global Entry Pilot this year, and in the short-term, to fully include Brazil in the U.S. Global Entry program. Visa-free entry-facilitated travel is a priority to the U.S.-Brazil business community.

Looking into the future

The advancement of these three short-term issues should be combined with a more ambitious bilateral agenda to promote trade and investment, as well as to secure a global partnership between the two largest democracies and economies in the Americas.

Bilateral Tax Treaty (BTT)

Recognizing the need for greater progress in improving U.S.-Brazil economic relations, in particular tax cooperation, the Brazilian National Congress approved on March 7, 2013, the pending 2007 U.S.-Brazil Tax Information Exchange Agreement (TIEA). Coupled with recent Brazilian update to its transfer pricing legislation and the ongoing bilateral discussions on Brazilian implementation of the U.S. Foreign

Account Tax Compliance Act, the TIEA sets the stage for the launching of formal negotiations toward a BTT.

CNI strongly encourages the launching of BTT negotiations and requests Congress to publicly and formally state its support for such an agreement through approval of a resolution and through engagement with both the U.S. Department of the Treasury and the Brazilian National Congress.

Innovation

Innovation remains a promising opportunity to both countries, including through bilateral cooperation on intellectual property, and educational and scientific cooperation. The U.S. and Brazilian governments are considering the launching of a U.S.-Brazil Information Technology Partnership modeled on the successful project-based 2012 U.S.-Brazil Aviation Partnership.

In view of this development, CNI requests Congress to secure effective cooperation in this field through support and the provision of adequate resources.

Trade Facilitation

The United States and Brazil announced in 2012 a groundbreaking bilateral air cargo pilot project to secure reciprocal recognition of their respective Authorized Economic Operators. The so-called Green Lane will link Miami International Airport to Brazilian Viracopos International Airport, thus creating a fast-track route for air cargo trade deepening U.S. and Brazilian companies' competitive integration to global value chains while complying with the highest security standards.

In order to implement the Green Lane, CNI urges Congress to consider options to fund this Brazilian Federal Revenue Authority and U.S. Customs and Border Protection-led project.

WTO Doha Round

As the United States executes an ambitious trade agenda, CNI encourages the U.S. and Brazilian governments to strengthen their joint efforts and demonstrate leadership securing a package of deliverables during the WTO 9th Ministerial Conference in Bali, in December. The package should include substantial commitments on trade facilitation and agriculture.

National Confederation of Industry
Brazil

CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

Trade Agreement

As Congress prepares to discuss an omnibus trade bill during the second half of 2013, CNI believes that time has come for the United States and Brazil to explore the option of a trade agreement. In this context, the U.S. and Brazilian governments could use the 2011 U.S.-Brazil Agreement on Trade and Economic Cooperation as a basis to study the challenges and opportunities of such an agreement in an effort similar to that preceding the launching of the Transatlantic Trade and Investment Partnership negotiations with the European Union.

CNI also believes that the U.S. and Brazilian governments could explore options to negotiate theme-specific trade and investment-related agreements in parallel to the study of a broader trade agreement. These agreements could include WTO-plus provisions on areas of mutual interest such as technical barriers to trade and sanitary and phytosanitary measures.

Unilateral Economic Sanctions

Since its inception, the U.S.-Brazil trade and investment relationship has been based on the principles of mutual respect, trust, and adherence to international rules. In this context, CNI strongly opposes unilateral economic sanctions—i.e., not authorized by either the WTO or the United Nations Security Council—that target Brazilian companies investing in or exporting to the United States, and urges Congress to refrain from such action. CNI also opposes similar measures in Brazil.

Seizing the opportunity

The scheduled State Visit of Brazilian President Dilma Rousseff to the United States on October 23, 2013, is a historic landmark in U.S.-Brazil relations reaffirming both nations' commitment to its strengthening.

CNI urges Congress to seize the opportunity presented by this visit by hosting Brazilian President Rousseff to discuss issues of congressional jurisdiction as well as other initiatives, including efforts to foster parliamentary diplomacy between the two countries.

Conclusion

CNI remains committed to a comprehensive U.S.-Brazil partnership that boosts growth, creates jobs, and promotes innovation in both countries through deeper trade and investment ties.

Brazil Institute

Wilson Center
BRAZIL INSTITUTE

Written Statement of Paulo Sotero

Director, Brazil Institute at the Woodrow Wilson International Center for Scholars

Hearing on

"U.S. Brazil Trade and Investment Relationship: Opportunities and Challenges"

House Ways and Means Subcommittee on Trade

June 12, 2013

This statement was prepared at the request of the House Ways and Means Subcommittee on Trade, and submitted on June 26, 2013, as Brazilian society and leaders confront the consequences of an unexpected and unprecedented widespread wave of street protest in more than one hundred cities. Although the initial protests were motivated by bus fare increases in Brazil's largest city, São Paulo, they quickly mushroomed into a national movement after police used excessive force against protesters.

Fuelled by multiple grievances and causes, from poor quality of public services and wasteful public spending of millions of dollars in construction and renovation of football stadiums to a general revulsion against a political class seen as largely corrupt and self-serving, rallies conveyed above all a deep sense of exasperation with the country's slow pace of change. The sentiment is especially strong among the young emerging middle class that took to the streets. Beneficiaries of two decades of democracy with economic stability, they bought the dream of a more prosperous and equitable Brazil drummed up by their leaders, and after experiencing some of it, they are now saying they want more and want better. Their ample access to cell phones and social media, a result of their social ascension, allowed them to circumvent traditional means of political intermediation and mobilize massive rallies throughout the country, to the astonishment of the political establishment, the media and even themselves.

In this sense, the protests can be viewed as a cathartic manifestation of a nation fed-up with the disconnection between the positive image of a prosperous nation, promoted by the government, and the harsh realities millions face in their daily life in congested, dangerous cities, precarious health services and bad schools. The frustration was made worse by repeated acts of arrogance by an entitled elite of politicians increasingly aloof to the people's plight. Workers Party (PT) Senator Lindbergh Faria, a 43-year old politicians who twenty years ago led street rallies to impeach president Fernando Collor de Mello on charges of corruption, acknowledged in an interview to the *Folha de São Paulo* newspaper that his party, once the champion of popular causes, ethics and transparency in politics, has "distanced itself from society and from the young generations." Most critics would agree that this took place after the party assumed control of federal power in 2003.

The street protests, that turned violent at times, have left Brazilians both apprehensive and hopeful about their future. The government's response started to take shape on Monday June 24, after what presidential aides described as "days of perplexity". An attempt by President Dilma Rousseff to embrace the protesters, in a nationally televised speech delivered as street protests were unfolding, was followed with a five-point proposal, including a suggestion for Congress to call for a plebiscite on a constitutional assembly with the specific purpose of reforming Brazil's discredited political system of representation. These efforts were not well received.

Protesters ignored the president's warnings against acts of violence that "damage Brazil's image abroad" and continued to demonstrate. A national day of protest has been called for July 1.

The problem for Ms. Rousseff is that the growth model based on consumption rather than investment initiated and pursued by her predecessor and mentor, Luiz Inácio Lula da Silva, is exhausted. A stalled economy with rising inflation and deteriorating fiscal and external accounts in a challenging global environment limits what she can do. There is little room to negotiate agreements necessary to deliver on the promises she made, such as a national reform of urban transport and "a profound reform" needed to add "oxygen to our old political system." These promises and people's demands cannot be delivered as fast as reducing bus fares. Some are controversial. Ms. Rousseff's plan to bring thousands of foreign doctors to Brazil to improve public healthcare services was strongly rebuffed by three national medical associations. They reminded the president she was successfully treated for cancer by doctors trained in the country.

Adding to the difficulties, Ms. Rousseff's centralized decision-making and her lack of taste for the give-and-take of politics is now seen by her allies as part of the problem. According to media reports published as the protests raged, leaders of the president's coalition and members of the business community are complaining about her governing style to Mr. Lula da Silva. The talkative former leader has remained out of view and conspicuously silent.

A cabinet reform, including a change of the discredited economic team led by finance minister Guido Mantega, which could take the form of a new beginning, seems unlikely but inevitable. It will be interpreted as an admission of responsibility for Brazil's mediocre economic performance under Ms. Rousseff and may do little to quiet the streets. The president's late and unimpressive response to the protests raises doubts about her own standing. There is no longer a sense of inevitability over Ms. Rousseff's re-election in October 2014.

With leaders showing little inclination to speak and act in a political landscape altered in ways they do not seem to understand, proposals involving tax, regulatory and trade reforms that could help Brazil address issues of economic productivity and competitiveness, such as those highlighted by other who offered testimony in his hearing, have little chance of being addresses. Former president Fernando Henrique Cardoso expressed doubts in an interview to the *Folha de São Paulo* newspaper about "the capacity of political parties to capture [the meaning of the protests] and change their message and connection with social media". The irony is that the effective use by organizers and protesters of Facebook, Twitter and instant messaging has mobilized enormous popular pressure on a government proud of having expanded the access of millions of formerly poor and middle-class Brazilians to mobile phones and internet services.

On a hopeful note, a group that in 2010 successfully pushed the approval of a law that banned politicians convicted of corruption from running for office, started collecting the 1.5 million signatures needed for Congress to vote on a political reform intended to reduce the number of parties and politicians and make both accountable to voters. The proposed initiative would ban all forms of corporate contributions to political campaigns. For now, and until political leaders from various parties come together and agree on a minimal agenda on the political system reform, traditional forms of mediation will not be effective and the pressure from the streets will manifest in direct forms of democracy. Meanwhile, on June 25, under intense pressure generated by the protesters, the Chamber of Deputies (House of Representatives) overwhelmingly rejected a constitutional amendment to reduce the investigative powers of federal and state attorneys in criminal cases involving political corruption.

As far as Brazil and United States relations, and in view of the upcoming state visit of President Rousseff to Washington, D.C. in October, members of the U.S. Congress would be well advised to see the current popular protests in Brazil as indicative of political vitality of a society that has become more prosperous and democratic in the past three decades and is saying loud and clear that it wants to remain on that course.

Phrma

STATEMENT

PhRMA
RESEARCH • PROGRESS • HOPE

Statement for the Record
Pharmaceutical Research and Manufacturers of America

"Brazil can capitalize on trade and investment with the U.S. by promoting innovation"

The Pharmaceutical Research and Manufacturers of America (PhRMA) thanks Chairman Nunes, Ranking Member Rangel, and the Ways and Means Subcommittee on Trade for creating this opportunity for our industry to speak about the U.S.-Brazil trade and investment relationship and ways to maximize economic growth and human health by promoting innovation. PhRMA represents the country's leading innovative biopharmaceutical research and biotechnology companies, which are devoted to discovering and developing medicines that enable patients to live longer, healthier, and more productive lives. Since 2000, PhRMA member companies have invested more than $530 billion in the search for new treatments and cures, including an estimated $48.5 billion in 2012 alone.

PhRMA members value the opportunity to trade with and invest in Brazil. Many of our member companies have an important and long-standing presence in Brazil dating back in some cases nearly a century. Many of them also belong to Interfarma, which is our sister organization, based in Sao Paulo. PhRMA members are invested in Brazil's manufacturing and clinical trials sectors. Our members make substantial investments in improving the health of Brazilian patients. Through introduction of new innovative therapies, along with patient assistance programs, they have provided access to life-saving medicines for millions of Brazilians suffering from serious infectious and non-communicable diseases, including Chagas disease, rotavirus, Gaucher's disease, and Alzheimer's. Our members also share the commitment of President Dilma Rousseff to education and are actively supporting her "Science without Borders" initiative.

While Brazil has become one of our industry's most significant markets, opportunities remain untapped to deepen trade and investment, while promoting economic growth and patient health in the U.S. and Brazil. PhRMA members would welcome the opportunity to work with the Brazilian government and other relevant stakeholders to further develop the sector and its potential in Brazil. We believe constructive engagement with the government across all levels and with the National Committee for Biotechnology present a valuable opportunity to deepen existing ties.

In order to achieve this, regulatory advancements and policies to support innovation are necessary. Greater convergence with international standards would decrease the cost of doing business in Brazil, diminish uncertainty, and attract investment in life-saving innovations that drive jobs and growth in the U.S. and Brazil.

As industry works to establish an expanded dialogue with the Brazilian government, we encourage the U.S. Congress to work with its counterparts in the Brazilian Congress to collaborate on the creation of an ecosystem for innovation in Brazil. This would create a positive opportunity to discuss barriers to development of that ecosystem, such as Article 229-C of the 1999 Amendment to the Brazilian Patent Law, non-transparent localization incentives under federal law 12.349/10, the regulations for

Government Purchasing from public private partnerships (PPPs) and regulatory delays that hinder access to new medicines.

Finally, we would welcome closer collaboration and consultation between the U.S. and Brazil in international forums, such as the World Trade Organization (WTO), to promote global free trade and investment in healthcare innovation.

We again thank Chairman Nunes, Ranking Member Rangel, and the members of the subcommittee for the opportunity to share our views on the current trade and investment dynamic with Brazil.

ITIC

Information Technology Industry Council

Statement for the Record of

John Neuffer

Senior Vice President, Global Policy, Information Technology Industry Council (ITI)

Before the

Committee on Ways and Means

Subcommittee on Trade

U.S. House of Representatives

U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges

June 12, 2013

John Neuffer Statement for the Record
U.S.-Brazil Trade and Investment Relationship: Opportunities and Challenges for the ICT Sector

June 12, 2013

The Information Technology Industry Council (ITI) commends Chairman Nunes for calling this important hearing on the U.S.-Brazil trade relationship and appreciates the opportunity to present this statement for the record. ITI is a global trade association representing 52 of the world's most innovative, forward-thinking technology companies. Brazil is an important and growing market for the U.S. high-tech industry. Many of ITI's member companies have operations in Brazil, including manufacturing, research and development, and extensive partner networks with local industry.

As Brazil seeks to expand broadband access, bridge the digital divide, become more active in the information technology services arena, and host upcoming global sporting events, there is a significant increase in trade opportunities available for U.S. information and communications technology (ICT) companies. The potential growth for U.S. ICT companies in Brazil, however, is being challenged by Brazil's industrial policy. The Rousseff Administration has continued, and even expanded, historically inward looking industrial policy, laden with protectionist and import substitution measures and defensive trade mechanisms. We encourage the U.S. Government to use new and existing dialogues and forums to advocate for a level playing field for U.S. companies doing business in Brazil.

Institutionalized in the "Greater Brazil Plan" (*Plano Brasil Maior)* and subsequent "Greater IT Plan" (*TI Maior)*, current industrial policy in Brazil has a significant focus on boosting the domestic ICT industry through a variety of measures -- from fiscal incentives to local content requirements -- and often at the expense of foreign competition. While the goal may be to promote and advance the domestic ICT sector, these policies seek to advance a range of protectionist practices that favor national champions and disfavor or even exclude American and other foreign competitors.

The Greater Brazil Plan includes policies to boost local manufacturing, promote innovation, and research and development combined with defensive trade measures. Several aspects of the policy -- including tax incentives tied to local content, technology transfer, and local development and manufacturing requirements -- specifically disadvantage U.S. ICT companies. The policy has led to several measures requiring local manufacturing and development of ICT goods and services; including equipment used to build out 4G spectrum and burdensome in-country testing and certification requirements of ICT sold to the public sector.

Issued in 2012, the subsequent Greater IT Plan is an incentives program for the software and ICT services sector. It aims to promote the local software and ICT services industry by increasing software and ICT services exports from USD2.5 billion to USD20 billion in the next 10 years. The Plan seeks to foster the creation of start-ups, encourage the establishment of research and development centers, and train high-skilled workers, while creating a system of preference margins for domestic companies.

ITI commends the Brazilian government's goals of expanding Brazil's technological base and capacity, facilitating the innovation potential of technology companies, and promoting knowledge-based industries in the country. The trade implications, however, of policies requiring local content and local development in the technology sector are troubling. Local manufacturing and locally developed technology requirements will restrict Brazil's capacity for fostering innovation and impose onerous and discriminatory requirements on U.S. companies seeking to sell into the Brazilian ICT markets.

The Rousseff Administration is also using the government's purchasing power as a tool for industrial development. Several of the measures recently announced leverage the Brazilian's government role in the economy, especially in light of government projects to expand broadband access in advance of the World Cup and Olympic Games. Decree 7174/2010, which regulates the procurement of IT goods and services, allows federal agencies and state entities to give preferential treatment to locally produced computer products and goods or services with technology developed in Brazil. Moreover, ICT bids for goods and services considered "strategic" may be limited to those with technology developed in Brazil.

Examples of these policies include a new system of preferences for government procurement of telecommunications networking equipment. Locally manufactured products will have a preference margin of 15% and products that are both locally designed and manufactured will have preferences of 25%.

There is also a proposed methodology by the government to certify locally-developed software as "national" for purposes of government tenders. Companies providing software and services that have been certified as "national" will have access to preferences that will allow tchem to overbid and still be awarded a government tender.

Brazil's National Institute of Metrology, Quality and Technology, INMETRO, has also instituted a conformity assessment program for information technology equipment in the government procurement market which creates barriers to entry by requiring redundant testing of IT equipment. This measure is geared toward building up the capacity of local testing and certification bodies and creating burdensome hurdles for imported IT equipment.

Testing and certification requirements in the consumer market also present trade challenges with repetitive in-country testing increasing costs and slowing down market entry. The U.S. ICT industry would benefit greatly if Brazil accepts test results from international accredited certification bodies and refrains from requiring in-country testing in both the public and private sectors. Existing dialogues, such as the U.S.-Brazil Commercial Dialogue could be used to pursue regulatory harmonization and mutual recognition agreements with Brazil.

ITI commends the Rousseff Administration's efforts to grow the Brazilian ICT industry, but recommends that Brazil focus on developing infrastructure and encouraging innovation, entrepreneurship and scientific and technological training to boost the competitiveness of local industry. Discriminating against global players in the ICT sector will limit access to the latest and most innovative technologies on the market.

As a Brazilian assumes the role of Director General of the World Trade Organization (WTO), we hope Brazil will become a greater proponent of the multilateral trading system. U.S. industry would significantly benefit from Brazil joining the WTO Government Procurement (GPA) and Information Technology Agreements (ITA) and also ongoing discussions on the Trade in International Services Agreement.

By eliminating tariffs on ICT products, the ITA would make innovative technologies more available to Brazilian consumers. As Brazil seeks to move up the value chain from a commodity exporter to service economy, it will need access to best-of-breed, affordable ICT products. Moreover, as Brazil seeks to grow its domestic ICT manufacturing, the ITA can provide significant benefits to domestic producers. The elimination of tariffs on ICT parts, components, and manufacturing equipment will facilitate and boost domestic ICT manufacturing in Brazil by lowering the price of upstream inputs.

We hope the U.S. Government and Congress will use all available bilateral mechanisms to encourage Brazil to adopt a more open and liberal trade policy. Advancing discussions on traditional trade policy, including tariff reduction and discrimination of imports, and also on next-generation trade issues will significantly benefit the bilateral trade relationship. While priority should be given to addressing forced localization policies, the U.S. Government should also simultaneously explore opportunities to increase bilateral trade in the ICT services space.

Brazil's goal of becoming an international services provider presents an opportunity to begin a bilateral dialogue that will benefit the services sectors of both countries. The U.S. ICT industry stands to gain substantially from further liberalization of trade in services as the driving force in the growth of cross-border trade in services. ICT companies not only deliver a wide variety of ICT services, but they also provide the infrastructure that enables services trade across all sectors, from healthcare to financial to entertainment. Discussions on the regulatory framework that supports the ICT services sector, including on licensing, cross-border data flows, and data protection, should be advanced in the Agreement on Trade and Economic Cooperation and the U.S.-Brazil Commercial Dialogue. Brazil should also be encouraged to join negotiations on the Trade in International Services Agreement.

Thank you for the opportunity to provide this statement on the bilateral trade and investment relationship with Brazil. ITI looks forward to working with the U.S. Government to level the playing field for U.S. companies doing business in Brazil and increasing trade and investment opportunities.

BSA

Statement on Behalf of

BSA | The Software Alliance

Before the

HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

On

"US – Brazil Trade and Investment Relationship: Opportunities and Challenges"

BSA | The Software Alliance
June 26, 2013

INTRODUCTION

BSA | The Software Alliance (BSA)[1] appreciates this opportunity to provide the House Ways and Means Subcommittee on Trade the following statement for inclusion in the record of the hearing on US – Brazil Trade and Investment Relationship: Opportunities and Challenges held on June12, 2013.

BSA is the leading global advocate for the software industry. It is an association of world-class companies that invest billions of dollars annually to create software solutions that spark the economy and improve modern life. BSA member companies make products that enable and provide solutions for all sectors of the economy.

Access to global markets and strong protection and enforcement of intellectual property (IP) rights are key priorities for BSA members. Overseas markets now represent more than half our members' overall business. Yet many obstacles challenge our members' ability to sell their products and services in foreign markets, hampering their ability to contribute to economic and job growth in the United States. They also undercut the ability of businesses and consumers in other countries to access the best and most cost effective products and services.

BSA has been active in Brazil since 1998. It's a critical market for our members, because they see clearly Brazil's potential including highly trained and inventive professionals, sophisticated industry, and a passion for innovation and technology. This statement highlights the important challenges BSA member companies face in this important emerging market.

SOFTWARE PIRACY:

BSA recognizes Brazil's progress in combating software piracy. The rate of PC software piracy has dropped from 59 percent in 2007 to 53 percent in 2011. However, this still represents a significant level of unlicensed software use – including by businesses and other enterprises – which has an estimated commercial value of more than $2.8 billion.[2]

Strong IP protection is a necessary condition to support the development of innovative products by our member companies and to stimulate economic growth and prosperity. BSA recently released in conjunction with INSEAD a study entitled *Competitive Advantage: The Impact of Properly Licensed Software*. This analysis draws on data from 95 countries and calculates the benefits to national economies of using fully licensed software. The study confirms that increasing use of licensed software corresponds to substantial positive gains in GDP, and that the economic stimulus effect of properly licensed software is significantly greater than that of pirated software.

In Brazil, increasing legal software use by 1 percent would add $743 million to Brazil's economy. Every single dollar worth of properly licensed software delivers a staggering $33 return on investment in Brazil.

[1]BSA's members include: Adobe, Apple, Autodesk, Bentley Systems, CA Technologies, CNC/Mastercam, Dell, IBM, Intel, Intuit, McAfee, Microsoft, Minitab, Oracle, PTC, Rosetta Stone, Siemens PLM, Symantec, and The MathWorks.

[2]BSA | The Software Alliance's 2012 Global Software Piracy Study, Ninth Annual BSA and IDC Global Software Piracy Study (May 2012).

BSA also recognizes the important role that the CNCP[3] (the main government entity responsible for the central coordination and implementation of Brazil's national anti-piracy campaign) plays in improving the enforcement of intellectual property rights in Brazil. However, Brazil's enforcement systems (both criminal and civil) suffer from critical bottlenecks, huge case backlogs and other deficiencies. BSA would like to highlight three among the many that are mentioned in the submission of the International Intellectual Property Alliance (IIPA) to USTR for the 2013 Special 301 Report:

- Prosecutors and judges lack specialized training in IPR cases, and there is no effective national program to train them. Last year, BSA sponsored four training sessions for eighty court experts on how to examine and identify unlicensed software. The CNCP has been active in promoting these events but efforts and resources need to be expanded considerably.
- Court backlogs and delays often undermine BSA enforcement campaigns to encourage business to legalize their software. Criminal cases can take up to four years to reach a verdict and civil cases can run up to 15 years to reach a final decision.
- BSA and its member companies face high expenses for forensic experts who conduct searches and seizures in civil cases, as sampling and private sector assistance in forensic work is not allowed under Brazilian law, and for bonds imposed on US and other foreign right holders in court proceedings.

GOVERNMENT PROCUREMENT OF SOFTWARE

In August 2012, Brazil's Ministry of Science, Technology & Innovation (MCTI) released its "Bigger IT Plan" to bolster the growth of the domestic IT industry. The plan focuses heavily on software and related services including a new process to evaluate and certify software products that are locally developed in order to qualify for government procurement price preferences that could be as high as 25 percent.

BSA submitted comments to the Brazilian government raising serious concerns about the proposed software certification program for government procurement preferences – the Certification of National Technology Software and Related Services (CERTICS) program -- in December 2012. BSA has also raised this issue with the US government.

On June 18, Brazil's Secretary of IT Policies formally launched the CERTICS program. CERTICS aims to promote and identify domestically developed software and related services through a "voluntary" evaluation and certification process that allows the software to qualify for significant government price procurement preferences.

The implementation of the final CERTICS methodology remains unclear. However, we understand that preference for local software in federal government procurement will remain with a ceiling of 25 percent. The certification process should enter into force 60 days after its publication in the Brazilian official gazette June 19.

According to the ABES, the local software association, Brazil's software market is valued at $9 billion in licenses. Of those, 8.7 percent were government procurement purchases. Seventy percent of software sold in Brazil is made by American companies.

BSA appreciates the goal of the Brazilian government to bolster local software development, but this should not be done in a way that discriminates against foreign providers of software. This will close down a significant part of the software market to US and other foreign companies and deny Brazilian government agencies the ability to choose the best products to meet their needs.

[3] The National Council to Combat Piracy and Crimes Against Intellectual Property

We urge that this program be delayed and consultations with industry continue on alternative means to bolster local software and IT development.

PATENT PENDENCY:

As reported in the IIPA Special 301 submission, Brazil's backlog of pending patent applications undermines IP protection and market access for both foreign and Brazilian software companies in the Brazilian market. There is a 10-year backlog in computer implemented patent applications in part because the Brazilian patent office is understaffed, with only 12 examiners in the ICT division.

BSA urges the Brazilian government to move forward with the March 14, 2012, proposed Patent Examination Guidelines for computer-implemented inventions and to build on the efforts to support significant increases in the number of patent examiners.

PERSISTENT TARIFFS ON IT PRODUCTS

Software and other IT products continue to face tariff barriers. The multilateral Information Technology Agreement (ITA) removed tariffs on a substantial number of IT products when it was concluded more than 15 years ago. Negotiations are currently underway between the United States and several other ITA members to update the agreement and expand the number of products covered. Brazil is not a member of the ITA and is not participating in the current negotiations. This means that US software and other IT products may face continued and significant tariffs in Brazil. The United States should urge Brazil to join the ITA and the current efforts to expand the agreement.

BSA appreciates the opportunity to raise the important issues our members face in Brazil as this Subcommittee seeks to address the challenges and opportunities in this bilateral trade relationship.

International Paper

INTERNATIONAL PAPER

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FOR THE RECORD
June 12, 2013

Chairman Nunes, Ranking Member Rangel, and distinguished Members of the Trade Subcommittee - my name is John Faraci and I am Chairman and CEO of International Paper.

Thank you for the opportunity to provide this statement on behalf of International Paper and the U.S. - Brazil CEO Forum. Brazil is a growing market for International Paper and very important to our company's future plans. The U.S. - Brazil CEO Forum, in my view, is a way for me to demonstrate our strong interest in Brazil and its future economic development.

The U.S. - Brazil CEO Forum was created in 2007 by U.S. President Bush and Brazilian President Lula. This initiative was driven in large part by then Brazilian Chief of Staff Dilma Rousseff to create a model for linking the countries together by building CEO networks to foster relationships between our two countries. It is chartered by the governments of both countries.

The U.S. and Brazilian governments charged the Forum with developing a roadmap to increase partnerships between the governments and the private sector and to removing economic impediments. The U.S. - Brazil CEO Forum is successful because it exemplifies how CEOs can create a public-private partnership where governments and the corporate sector work together to strengthen our economic relationship. The opportunity to exchange views between the U.S. and Brazilian CEOs and our governments is critical to improving and advancing the bilateral commercial relationship.

The Forum is comprised of 12 Brazilian CEOs and 12 U.S.CEOs and is chaired jointly by a CEO from each nation and two government representatives from each country. The CEOs have met eight times since 2007. I have served on the Forum since its inception and as the Chair of the U.S. section since 2011. A list of the current Forum appointees is attached.

Following the conclusion of each meeting, the CEO Forum submits its recommendations on areas where the governments can improve the competitive integration of the two economies. To date we have seen the governments take positive steps to:

- Complete the Agreement on Trade and Economic Cooperation (ATEC) and the Open Skies Agreement;
- Launch the Strategic Energy Dialogue;
- Identify a path forward on resolving the cotton dispute;
- Make progress on the Global Entry Program;
- Continue discussions on a Bilateral Tax Treaty;
- Launch the Logistics Investment Program;

- Support the continuity of Brazil's "Science Mobility Program" and the United States' "100,000 Strong in the Americas" initiative;
- Institute the "Differential Regime of Contracting" program; and
- Allow the import surcharge for ethanol to expire.

The most recent Forum meeting took place March, 2013 in Brasilia at which the CEOs developed an ambitious list of priorities focusing on trade and investment, education and innovation, and cooperation in aviation, energy and infrastructure. The Recommendations and Priorities documents of the U.S. - Brazil CEO Forum are attached for your review. They include the CEO's request for both governments to prioritize work on the following:

- Initiate negotiations on a Bilateral Tax Treaty in 2013;
- Accelerate work on a U.S. – Brazil Agreement on Trade and Economic Cooperation (ATEC) and have the Presidents review the work on a biannual basis;
- Pursue an expedited intellectual property regime to drive innovation – noting the need for both governments to streamline the patent review process;
- Use the Aviation Partnership as a model for progress in other economic sectors;
- Continue to call for the involvement of the private sector in the energy dialogue and encourage the consideration of a "Bio-based Innovation Center" to expand work toward creation of a bio-economy;
- Immediately complete a reciprocal Global Entry Program.

The next CEO Forum meeting will be held in conjunction with the state visit of President Rousseff to Washington in late October. We are coordinating with the governments to ensure progress is made on these priorities.

International Paper is a global paper and packaging company with manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. Our businesses include uncoated papers and industrial and consumer packaging, complemented by xpedx, the company's North American distribution company. International Paper is headquartered in Memphis, Tennessee, and employs about 70,000 people in more than 24 countries that serve customers worldwide.

In 2012, International Paper exported 23 percent of the products we manufactured in the U.S. to customers around the world. We imported less than 0.001 percent of our production made at our global operations back into the United States. Approximately 8,700 International Paper jobs in the U.S. are linked to our total exports and roughly 4,600 small and medium suppliers to International Paper are also linked to trade. In 2012, our net sales were approximately $28 billion.

International Paper acquired manufacturing assets in Brazil in 2000 to create International Paper do Brasil which is headquartered in São Paulo. Since 2000, International Paper has invested over $3 billion in Brazil. Our manufacturing facilities include two pulp and paper mills and a paper mill. Together, the three mills produce one million tons of paper that is sold in Brazil, elsewhere in Latin America and to global markets.

In 2013, International Paper increased its investment in Brazil by finalizing a transaction with Grupo Orsa to form Orsa International Paper Embalagens S.A. International Paper holds a 75 percent stake in this entity which includes three containerboard mills and four box plants.

The company has 5,400 employees in Brazil and grossed over $1 billion in 2012 net sales. The sustainable, abundant fiber supply, coupled with low production costs, provide IP the ability to serve the expanding Brazilian and South American markets.

In summary, the past and future success of the U.S. - Brazil CEO Forum hinges on the CEO's forward-leaning joint recommendations to their governments to advance the bilateral commercial relationship. The exchange of views between the CEOs on how to grow the bilateral economic cooperation between our two countries is both important and constructive. The Forum sustains a meaningful and outcome-oriented dialogue on trade and economic growth issues. The Forum has helped both governments move closer on many important bilateral commercial issues. It is the view of the U.S. - Brazil CEO Forum that we have great opportunities on the horizon to transform the bilateral relationship into a vibrant economic partnership. Thank you.

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U.S.-Brazil CEO Forum Participants
2011-2013

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John Melo, CEO (Amyris, Inc.)
Gregory Page, Chairman & CEO (Cargill)
Lee McIntire, Chairman & CEO (CH2M HILL)
*John Faraci, Chairman & CEO (International Paper)
Kenneth Frazier, CEO (Merck)
Steve Angel, Chairman, President & CEO (Praxair, Inc.)
Deepak Chopra, CEO (OSI Systems, Inc.)
Keith Nosbusch, Chairman and CEO (Rockwell Automation)
Mary Andringa, President and CEO (Vermeer Corporation)

*John Faraci, Chairman and CEO (International Paper) chairs the Forum for the U.S. Section

Brazil Section
Otavio Marques de Azevedo, CEO (Andrade Gutierrez)
Carlos Alberto Vieira, (President) (Banco Safra S.A.)
Luiz Roberto Nascimento, Vice Chairman of the Board (Camargo Corrêa S.A.)
*Josué Christiano Gomes da Silva, Chairman and CEO (Coteminas S.A.)
Frederico Fleury Curado, President and CEO (Embraer)
Jorge Gerdau Johannpeter, Chairman of the Board of Directors (Grupo Gerdau)
Marcelo Odebrecht, Chairman & CEO (of Engineering and Construction) (Odebrecht S.A.)
Marco Antonio Stefanini, Founder and President (Stefanini IT Solutions)
José Luís Cutrale, CEO (Sucocítrico Cutrale Ltda)
David Feffer, Chairman (Suzano Group)
Murilo Ferreira, CEO (Vale)
José Roberto Ermírio de Moraes, CEO (Votorantim Participações S.A.)

* Josué Christiano Gomes da Silva, Chairman and CEO (Coteminas S.A.) chairs the Forum for the Brazilian Section

U.S. – BRAZIL CEO FORUM – VIII MEETING
MARCH 19, 2013
PRIORITIES LIST

At the eighth meeting of the U.S. – Brazil CEO Forum on March 19, 2013, the CEO's agreed to establish a list of priorities for the next two years. The CEO's also agreed to meet next in the U.S. during the fourth quarter of 2013 and recommended that a preparatory meeting of Forum company staff take place in the third quarter.

TAX AND INVESTMENT

The Forum calls on both governments to build on the recent progress in the area of tax by announcing a 2013 date to initiate negotiations on a Bilateral Tax Treaty (BTT) and to agree on a specific set of milestones toward timely completion.

The Forum calls on the governments to accelerate the work of the U.S. – Brazil Agreement on Trade and Economic Cooperation (ATEC) to further advance trade liberalization especially in the areas of procurement and localized barriers to trade. The Forum recommends that the ATEC establish an ambitious work plan with set objectives and a calendar of meetings among officials.

The CEO's recommend the ATEC be placed under the bi-annual review of the Presidents to ensure progress is aligned and transparent.

EDUCATION AND INNOVATION

The Forum renews its commitment to higher education in the Science, Technology, Environment, and Math (STEM) fields and will continue to support the "Scientific Mobility Program" and the "100,000 Strong in the Americas" initiatives. The CEO's support efforts to help Brazilian students study and intern in the U.S. and for U.S. students study and intern in Brazil.

The Forum calls upon the governments to pursue an expedited intellectual property regime to drive innovation. The CEO's call for the U.S. Patent and Trademark Office (USPTO) and Brazil's National Institute of Industrial Property (INPI) to enter into a formal work-sharing agreement that will streamline the patent review and examination process between both countries.

The CEO's committed to providing technical support to the Brazilian government's "Projeto Rede Cegonha" (Stork Network) program to provide health care to pregnant women and infants. The CEO's cited the role of private sector collaboration to reduce maternal mortality.
The CEO's highlight the importance innovation has for both our countries competitiveness. In that regard, the CEO's encourage both governments to discuss mechanisms for sharing knowledge in technology intensive sectors such as information technology and biosciences.

COOPERATION IN AVIATION

The Forum calls upon the governments to continue the expedited work plan under the Aviation Partnership Agreement and to use the partnership as a model for progress in other economic sectors.

The CEO's recommend the governments advance the implementation of the 13 projects defined in the Action Plan of October 2012, in the fields of: (a) government-to-government cooperation, (b) training and education and (c) integration of supply chains.

Specific projects will include knowledge sharing in aviation security and safety regulations, certification standards that promote supply chain integration, airport efficiency and security for the 2014 World Cup and the 2016 Olympics, among others.

ENERGY

The Forum continues to call on the governments to involve the private sector in the energy dialogue to facilitate discussion related to technologies and processes that can enhance competitiveness and productivity in all energy sources, and also to foster and develop the use of natural gas and biomaterials between the two countries and in the region.

In the area of natural gas, the CEO's call on both governments to promote the dialogue with the private sector around opportunities for exploring reserves of Brazilian shale gas and its contribution to diversify Brazil's future energy matrix.

The CEO's encourage the consideration of a "Bio-based Innovation Center" to expand work toward the creation of a bio-economy. Both countries have vast renewable resources and considerable potential in technological innovation, which, in many cases, could be developed jointly. The CEO's also recommend the governments review the merits of extending incentives to foster the bio-economy.

INFRASTRUCTURE

The Forum calls on both governments to advance information sharing and harmonization of procurement policies for contracting public and private infrastructure projects.

The CEO's urge the governments to immediately complete the reciprocal Global Entry Program and to identify a timeframe to launch a formal "Visa Waiver Program for Skilled Professionals" and a "Visa Waiver Program".

U.S. – BRAZIL CEO FORUM – VIII MEETING
MARCH 19, 2013

The Chief Executive Officers that constitute the private sector of the U.S. – Brazil CEO Forum stated their recommendations and priorities at the VIII Meeting of the Forum on March 19th, 2013 in Brasilia and, before the IX Forum Meeting, the CEOs will work with their governmental partners to achieve meaningful results on the areas outlined bellow.

Since the last meeting in Washington, DC, in April 2012, several progresses have been made. The CEOs specifically applauds:

- The launch of the Logistics Investment Program (PIL), which includes projects throughout the country, in highways, railways, ports and airports, with estimated investments of more than R$ 200 billion and special conditions of long-term financing;
- Approval by Brazil Congress of the Tax Information Exchange Agreement, a necessary step to reach a Bilateral Tax Treaty;
- Withdrawal of U.S. ethanol subsidies program;
- Progress in the reciprocal Global Entry Program;

- Establishment of Brazil's Energy Working Group to materialize private sector participation on in the Bilateral Energy Dialogue;
- The continuity of Brazil's Science Mobility Program and the U.S.'s 100,000 Strong in the Americas initiative and the firm support to students interning at Forum companies; and
- The several meetings of Government officials to discuss the Aviation Partnership.

TRADE AND INVESTMENT

The Forum participants invite both governments to set a long- term goal of reaching a broader trade and investment liberalization framework.

Brazil and the U.S. supported the Doha negotiations, the ideal setting for the advancement of international trade rules. A positive outcome for the Doha Round seems distant and, as a consequence, a number of bilateral agreements have been implemented or are under negotiation among many of our major trading partners. In addition, the important shifts in trade and investments flows from the Atlantic to the Pacific compel the U.S. and Brazil, the leading economies of the Americas, to seek the construction of a fully integrated economic area within this hemisphere, a robust instrument for jobs and wealth creation, a priority our countries share.

In order to achieve this goal, much should be done to promote and accelerate economic integration preparing the institutions of both nations for a future common market. With intensified goods production through global value chains, harmonization of certification processes of both countries, such as the Cooperation in Aviation Agreement, will spur not only trade between the two countries but also with third markets given the improved competitiveness it can foster for both of them. The CEO Forum reaffirms its support for the completion of a Bilateral Tax Treaty (BTT) as a priority to be sought by both countries. Also, the facilitated movement of people between the two countries, both tourists – via visa waiver - and specialized professionals – with expedited working visa concessions, is a desirable step forward towards a reciprocal better mutual knowledge and understanding.

The U.S. – Brazil's Agreement on Trade and Economic Cooperation (ATEC), an initiative the Forum strongly supported, is an important tool for structuring the bilateral dialogue between the two governments and should be instrumental for advancing the bilateral agenda towards greater trade liberalization. Given the asymmetry between several sectors of our economies, we urge both governments to, along with the respective private sectors, eliminate competitive gaps and structural bottlenecks thus allowing for complete and full trade liberalization in the future.

EDUCATION AND INNOVATION

The Forum reaffirms its commitment to partnerships between Brazilian and U.S. companies in science and technology, including policies that foster the promotion of science, technology, engineering and math education. Forum companies reiterate their support for the U.S. *100,000 Strong in the Americas* initiative and Brazil's *Scientific Mobility Program*. Brazil CEOs are called upon to welcome U.S. exchange students into their companies. The U.S. companies again commit themselves to support Brazil's *Scientific Mobility Program* and welcome Brazilian exchange students. We call on both governments to continue collaborative efforts to expand the two programs in our respective countries.

The Forum continues to support initiatives that focus on strengthening innovation in both countries, especially in sectors that are essential for economic competitiveness and social well-being. In that regard, the Forum endorses an initiative of CEO Forum member companies to provide technical support to parts of the Brazilian government's "*Projeto Rede Cegonha*" (Stork Network), a program designed to provide health assistance to pregnant women and infants in Brazil and health investments in general.

The CEO Forum believes that the private sector can collaborate with the government to achieve Millennium Development Goal 5 (MDG 5), namely to reduce Maternal Mortality in Brazil through innovative healthcare solutions aligned with the government's maternal-health program *Rede Cegonha* and to create opportunities for investments in the health sector, involving technologies transfer and innovation.

The Forum suggests the creation of a special Task Group, which in a joint effort with the Ministry of Health will evaluate potential initiatives to help improve the efficiency of public policies established to achieve MDG 5. Promoting pregnancy health and infant health is essential to advancing the educational goals of our two countries.

The Forum fully endorses the efforts of both governments to collaborate in building a strong and efficient intellectual property regime in both countries to drive and support innovation. In that regard, the Forum supports the exchange of best practices between the U.S. Patent Office and INPI and the creation of mechanisms that allow for an efficient sharing of knowledge and incentivize innovation. Innovation is essential to the competitiveness of our two nations in the global economy.

COOPERATION IN AVIATION

Since the last meeting of the Brazil-U.S. CEO Forum in 2012, Government officials from Brazil and the U.S. have met several times to discuss the implementation of the Aviation Partnership Agreement (APA).

Building on the progress of the Open Skies agreement, the CEO Forum encourages Brazil and the U.S. to expedite the implementation of the Aviation Partnership Action Plan agreed last October in Brasilia.

Brazil and the U.S. can foster significant trade and economic benefits, as well as enhanced cooperation between government agencies, education initiatives and supply chain integration, the three priority areas identified by the APA Coordinating Committee for 2013.

Specific projects will pursue enhanced airport security and safety, as well as increased business between the supply chains of both Nations.

ENERGY

As our two economies grow, following a devastating global recession, businesses will require more energy. While we must strive to increase energy efficiency and count on the promise of new technologies, it is clear that additional sources of energy will be necessary. With the goal of securing our shared energy future and spurring growth, the U.S.-Brazil CEO Forum would like to highlight two areas for our governments to explore.

First, Brazil could significantly benefit from promoting more intense use of natural gas in order to assure the reliability in power supply in a low cost and emission basis. The U.S. experience with shale gas fundamentally changed the country's energy outlook, providing a new source for natural gas. Just as it does with offshore oil, Brazil has significant potential deposits of natural gas onshore. The development of these fields, if done in an environmentally careful way, can create jobs and economic growth for years to come.

In addition to collaborating bilaterally on the exchange of experiences – both policy and technical – the CEO Forum recommends that both countries explore how to incentivize the emergence of a vibrant natural gas industry in Brazil.

Second, the Brazilian experience with sugarcane ethanol has been an inspiration to many countries around the world seeking to reduce their dependence on imported fuels.

Technologies related to the use ethanol as fuel (such as flex-fuel engines) illustrate that. The U.S. has also seen its bio-based industry grow significantly thanks not only to strong biofuels policies, but also to targeted initiatives that encourage the creation of what many call the bio-economy, an area where Brazil has a huge potential.

While both countries continue to cooperate across a wide range of biofuel policies and activities, ranging from reducing trade barriers for fuel ethanol to demonstration flights with sustainably produced jet fuels, the Forum recommends a program to speed up the emergence of the bio-economy. We believe it is best to encourage the clean, efficient technologies of tomorrow instead of imposing higher taxes on carbon intensive industries as other countries are considering.

On energy policy, the CEO Forum believes we cannot turn our backs to the energy that has propelled our economies for the past century but also we should incentivize the innovative renewable technologies that will bring us a cleaner, more sustainable future.

INFRASTRUCTURE

Throughout 2012 the Brazilian Government has evolved on several fronts to encourage and facilitate infrastructure projects in the country. These fronts included, among others, (a) improvement of the public bidding process, by broadening the scope of the Differentiated Regime of Contracting (RDC) in order to also include works related to the Growth Acceleration Program (PAC), in addition to works for the 2014 FIFA World Cup and the 2016 Olympics; (b) launching the Logistics Investment Program (PIL), which includes projects throughout the country, in highways, railways, ports and airports, with estimated investments of more than R$ 200 billion and special conditions of long-term financing; (c) improvement of the PPP Law, by enacting Law 12.766/12, to enable further use of this type of partnership in infrastructure projects; and (d) improvement of the Infrastructure Debenture Law, by enacting Law 12.715/12, clarifying the rules for long-term financing through this capital market security, in line with market expectations.

Following the paper produced by the Brazilian side, explaining the Government procurement policies for contracting infrastructure projects, the American side of the Infrastructure Committee also worked on a similar document that is available from March 13, 2013. This document provides an overview as well as detailed information on all forms of contracting public works and infrastructure investments in the U.S. Included are specific details about U.S. federal law, regulations, guidelines and policy, and, especially, procurement policies in the state of Colorado, using Colorado as an example of how these policies work in other U.S. states and municipalities. This document is expected to start a better informed discussion about the potential opportunities and the means by which Brazilian companies can invest in the United States.