

Written Testimony of Doug Hundt
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Trade Subcommittee
U.S.-Brazil trade and Investment Relationship: Opportunities and Challenges
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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.

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.

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.