



Brazil - U.S. Business Council

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**Written Statement of Roberto Marques
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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
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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.