

## Chapter Ten

# The Future Prospects and Shape of Trade Agreements in the Atlantic Region: A Round Table

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### Opening note

Below is a slightly edited version of the recording of the Round Table which took place on March 23, 2018. In order not to lose the spontaneity of both the interventions and the debate, the text is fairly close to the participants' original words; no improvement or substantial revisions having been made. Blunt repetitions or expressions used in spoken language, mostly to add emphasis, have been deleted.

**(R. Flôres)** *Bom dia!* This is the last panel of our meeting, the second thematic meeting of the “Jean Monnet Network on Atlantic Studies”. We had a very enlightening seminar yesterday, and we close with this outstanding panel. We are supposed to discuss the shape and form of future trade agreements.

As we know, the Atlantic area is famous for its love of integration, so we find several regional integrations here, we find the EU, the sponsor of this project and a model of integration; it wants to spread its experience on regional integrations. We are going to discuss this.

My colleagues here are all honourable and serious men, they surely have wonderful presentations. Let me introduce them, very briefly:

*[the four members of the Roundtable, Carlos Mariani Bittencourt, Dan Hamilton, Roberto Fendt and Renato Bauman are then introduced]*

So, to start, I'll make a kick-off and pass the word to my colleagues.

We have a new reality: to perhaps the great joy of the Chinese, who are not yet number one in the world, the US administration stopped the TTIP negotiations, refused to sign the TPP, and is pursuing a trade policy, which

is not unusual by the way, but runs different from what had been done in the past 10 to 15 years. We have new realities also in South America, in Africa (in the beginning of this week, we had a very important event: 44 African countries manifested the will to make a Free Trade Area, which in principle was signed by 21 countries, many of them in the Atlantic coast). Ambassador Cravinho, yesterday, was very enthusiastic about the EU—Mercosul Free Trade Agreement, which is already 22 years old. So, there may be very interesting things that are going to be fixed until the end of April; we have a lot of new realities! And my first question to my friends is: we were in this kind of encompassing trade agreements, TTIP was very ambitious, all kinds of regulations, TPP also with standards, rules... And now, we came back to good old times...

I would like to ask: Do you think that these big encompassing trade agreements, particularly in the Atlantic realm, are over? What do you think are the prospects of a comeback of these kind of trade agreements?

**(R. Fendt)** I'll start this discussion with the background, if you don't mind. Essentially, Mr. Trump has been in office for almost one year and half. Nothing happened in the trade front. There are many remarks by Mr. Trump about the Chinese, not very kind, by the way. The Americans have a very curious perception of the world economy. The system they created, back in 1944-47, this rules-based system, in multilateral trading and in many other areas, the FMI, World Bank, the GATT, produced 70 years of uninterrupted growth. Americans were the ones who profited more from it. Some people say that Mr. Trump is a kind of a "Mussolini". I guess this is not strictly correct. He seems to be all things, and sometimes he is, but he has a master plan.

The multilateral trading system was a system of co-operation; the rules were for everybody. Americans are particularly scared about the prospects for national security of the rise of China as a major power. They are scared on the military side.

The US administration used to have four basic pillars. The first was the President himself, now difficult to understand, and difficult to predict. The second was the faction of trade falcons (hawks). They are firmly convicted that the United States are losing from the current multilateral system. They rather prefer that the US negotiate in a bilateral basis; which is great, but not well accepted by potential trading partners. The other faction is the National Security hawks. These folks believe that China will surge a civil war against the US. The reaction is well perceived, Chinese students are

very monitored, what they do, where they go, to whom they speak... The US are blocking acquisitions of Chinese high-tech firms in the States. They share the same worry with Germany. And there was, in the past, a fourth line in the White House, which was the people who were 'globalists'. They accepted that globalization was good for the States, because it had been good for several decades. Unfortunately, the head of this group was fired. But the biggest nation in the Atlantic still is the US; they are left with less illusions, they want to get out of many of the trade arrangements.

So, I really don't know what the future of the trade agreements in the Atlantic is; the US must be in, because they still are the largest economy in the world, without them it will be difficult to have trade agreements.

**(D. Hamilton)** I would caution you, when looking at the United States today, to say "the Americans." We are having a huge political fight in the US, in which each of our two major parties is fighting a civil war within itself. The traditional notion of Democrats vs. Republicans is becoming quite fluid. It's hard to say what it even means anymore. You have many Republicans opposing the President; many Democrats fighting over the legacy of the election debacle. It's very unclear where things will go. But it's also unclear with that many opposing forces what the President is trying to do, particularly in the Congress (including on trade).

So, when it comes down to final decisions, it's not only the President who's erratic; you don't know where the Congress will come out. There are some particular issues they have blocked the President, on a number of variants, when they simply don't agree with him. They are so far a bit clearer about Russia, Ukraine, military issues but there's also a big push against what he's trying to do on trade. Whether it comes out, I can't tell you. There's also a different kind of force, which you will see through the NAFTA renegotiations: the US governors, the leaders of our 50 States, are all heading to Washington to argue why, what Trump is doing is a disaster for their states. And the governors in a big, continental size country, with a federal republic, really do play a big role. This is important to keep in mind.

So, it's fluid. We should not anticipate that everything the President tweets is becoming US policy, because it isn't. It's a constant fight in Washington, everyday among all these forces. That's why it's unpredictable. The President does not have a master plan. He is a transactional businessman, who is using transactional business tactics to leverage the US position vis-à-vis the other partners. Allies and adversaries, it's all conditional, depending on the advantage you can gain in his view for the US.

With that said, after your question, what we are seeing are different and often contradictory trends going out at the same time. You have the whole multilateral system in crisis at the WTO, for reasons that much have to do with the WTO. In general sense, it has not been producing, because we are not getting any consensus or any breakthroughs in the WTO itself, before Trump, on a whole host of really important trade issues. So, it's not functioning.

What Trump has done is to question the premise of it, and to try to block particularly the appellate body that's important to these trade contestations. Because, as you have said, this is a concern, not a fear. I don't think the word "fear" appears in the American perceptions about China; there is rather a concern that China uses a predatory mercantilist type of approach that enables Beijing to game the system, in ways that those committed to multilateralism just aren't prepared for.

This is a debate, and not just in the United States. How wise was it at the time to admit China into the WTO? Many countries now are rethinking why that was done at that time. What were the premises behind the decision? Should it be reconsidered?

The result is that, as you have said, the country that helped to create this liberal order is now questioning it. It's not trying to destroy it, but it wants different terms. So that's one level.

Then Renato's question is, at the next level, what I would call super-charged bilateralism. That's what we are seeing these days! You see the US renegotiating number of its agreements and pulling out of some.

But you see, the EU is doing the same thing. The EU is even acting more bilaterally in trade than the United States, with a whole host of new negotiations, in a way that is trying to encircle the US with some agreements.

Then the mega-regional agenda that existed, you have the EU trying to create this new deal, you have the revival of the TPP without the United States, you have the Africa Agreement. So, the mega-regional agenda is also moving forward, but not in an even way.

When you have Nigeria saying it's not going to participate in the African agreement, that's also a big, big issue. What we are discovering is that other deeper trends are underway that are influencing trade perceptions. One is the digital world. The digital economy, in many ways, is becoming the economy; we don't have any good data about data. Governments really don't know how to measure these flows, or these interactions, in good

ways. We don't know the extent to which we are becoming dependent on these digital connections. We know we are, but we don't yet know how. We have to think harder about the digital world, how is it interacting with the traditional trade world. That's a driving force right now, and we don't have good rules about it.

Second, changes in technology are affecting how trade is conducted and breaking it up in terms of trade and tasks. New kinds of technology allow companies to bring things back home that they used to outsource.

The third big trend is energy. A whole new paradigm of energy is unfolding before our eyes. This is particularly important to the Atlantic, because many of the new energy flows are emanating from the Atlantic Basin. This too will affect how we think about trade in the future.

**(C. Mariani)** The day before yesterday I visited my fellows at the National Confederation of Industry. All negotiations with the EU, and at Mercosul, are conducted by the National Confederation of Industry, since the last 22 years. I witnessed the first years of negotiations inside the members of Mercosul. And then, finally, when we received the visit of a very important German businessman, who suggested, in 1997 or 1998, that we should work together, four countries in Mercosul, and four in the EU. So, we started this, it was not very easy, but it was comfortable to negotiate or to suggest. The first meetings were in early 2000. The negotiations proceeded very well, very friendly, with very qualified people from both sides, and finally we reached, in Lisbon, the date of a possible signature of a preliminary document. And for our surprise, for the South American team, the Europeans changed. Just as always, agriculture doesn't accept what's being discussed by industry. So, negotiations were officially cut. The re-suming of the negotiations was in 2010, with a meeting in Madrid, and with the presence of the Presidents of most countries in Europe and South America. And everything started again, just three years ago, we entered in something. Finally, the 31st of December 2017, was supposed to be the date of the signature. The President of the EU was in Brasilia, but there was no signature. And we started everything again.

I met some people at the National Confederation of Industry, yesterday morning, and we wrote something intelligent:

*[reads a set of questions ]*

**(R. Flôres)** Thank you! Just a few points: you remember yesterday what Ambassador Carneiro Leão said about China and the WTO: "China loved

WTO”. And you heard what Professor Hamilton said today. So, you see that things start to match! Also, Professor Hamilton raised new points, which is the digital world, the retreat of fragmentation, something very interesting, with deep consequences. I will pass the word to Professor Bauman, to hear his views on the original questions, but I will add another question, related to the first one. An important point in these agreements was the discussion of standards and rules. So, let us suppose that we are not going to have anymore these encompassing talks, although Dan said that Europe is trying to negotiate them to a certain extent. TPP is trying to keep the encompassing character. I think that, without the US, the game is different. I would add: Do you think that, even if we don’t have more these mega-agreements, the issue of standards and rules is here to stay, will it be present even in more modest agreements?

**(R. Baumann)** I will focus on the Atlantic area, as such, not the broad Atlantic area that comprises Indian countries, African countries .... Those at the Atlantic coast. When you see the South part of the Atlantic, us and Africa, it is of course very poor. Few things going on, in terms of trade and investment; it’s not the most brilliant part of the world. Most of it takes part in the Northern Hemisphere, the US and the EU. The question is: Are we about to see further agreements or negotiations? And the answer is, definitely yes. At the NAFTA level, two things were brought to table: A) The varying waiver of steel and aluminium tariffs (if you behave yourself, we won’t negotiate and we’ll treat you differently); B) Then the corporate ex-rate adopted by the US, which is damaging a number of other countries. On the EU side, don’t forget we have the perspective of Brexit. Almost half of the value of US exports into EU gets via the UK. So, if the UK leaves the EU, that imposes two things: a very needed bilateral negotiation US-UK, by definition, but then the market value of the EU for the US, comes down, because it is a very important partner, and hence it is bound to be new negotiations US-EU, without the UK, and then you have the 5 years-old Canadian agreement with the EU, and Canada is a member of the Commonwealth.

We, of course, have a very strong hope, not only from the EU ambassador, but I can assure you, from the Brazilian government we are bound to finally have some agreement by late April or early May, and I presume there is a concrete margin for that hope. There are three elements to take into account:

1) TPP minus one: countries have signed that. It is not as ambitious as originally, but it’s there, and it gives a very strong signal of what, from now

on, the negotiators must take into account. It provides a bottom line for further negotiations, comprising those countries.

2) China: the turning point of the presence of China is 2001. China is overwhelming, its figures are so important. But this is a very recent thing. And it was trade. What is new? The increasing intensity of China trade with emerging economies. If you plot a chart of the relative weight of low and medium-income countries in China exports, it comes flat and, in 2001, increases.

The unprecedented thing is investment. China is flexing its muscles, and increasing its presence everywhere, including in our economies. There is another aspect with regards to trade negotiations: the fact that the first preferential trade agreement by China dates from 2004. China has 12 to 15 trade agreements, so far. And the point is, different from the US and the EU, when you have one size fits all: “These are the conditions, join it or lose it!”. In the case of China, it’s tailor made. Every single agreement considers the interest of its trading partner. This opens a wide door to the possibility of reducing resistance with negotiating with China. Because they seem to be so clever, they take into account all things you care most, that’s the second point.

3) The third aspect, most of the wealth on trade, for the US and for the EU, is not merchandise, it is services. Trading in services implies change in your domestic legislation, norms and practices. Hence, the agreements are bound to take place, and to comprise government procurement, trade in services, norms, the relation between government and private agency, and so on.

**(R. Flôres)** Thank you! Again, you opened another area of investigations, which is the area of services. It is very interesting the TPP-1 view. And the consequence of Brexit is also interesting. It seems that the British didn’t do their homework on Brexit. And given the EU-Mercosul agreement, maybe Dr. Mariani can complement.

**(C. Mariani)** I have been optimistic for many years, but there is something we don’t understand very clear, the negotiations between EU and Mercosul. The leadership of Brazilian foreign officers, Ambassador Ronaldo Costa Filho, is very cautious in terms of the information he gives, and he doesn’t want to force anything.

**(R. Flôres)** Roberto Fendt, would you like to say something about China?

**(R. Fendt)** There is a very big difficulty here and elsewhere, regarding China's intentions. The first thing to mention, and to complement what Renato Baumann said, China is not rules-based. But when China joined the WTO, there was a big expectation in the West that this rapidly rising middle class in China would put pressure for democratisation, in the Western way, which is different from the Chinese view. The Chinese do not value conflict; they value harmony; that's why they have one single party. They are not rules based! This new silk road project is the way of integrating China in the world economy. It's completely different from the model the US created in the late 40's. It's not a system of rules, it is a system based on transportation, which will develop the Western part of China, and then will take China worldwide, either by sea or by land. Renato Baumann said something really important, China is very flexible, maybe in the future, when China is number one, this will change, but currently, they have agreements with everybody, not just the small countries, but also the big ones (Australia, New Zealand, South Korea). This should be kept in mind. They will continue expanding this silk and road project, it's a political project. But the main drive is the competitive insertion of China in the world economy.

**(R. Flóres)** Thank you! I will pass to Dan, but I would like to add a further question: you mentioned a "flowery" of agreements in the Atlantic area; also mentioned the question of Africa, Nigeria... How do you see with this 'certain confusion', an increase in South- South agreements in the Atlantic? Does this imply that nothing is going to happen?

**(D. Hamilton)** Let me just make a couple of basic points. I think the point about services is also really very important, especially because that's where the jobs are. Trade is just the means, it's not the goal. Maybe we lost track on that in all our narratives. I think the goal for domestic leaders and the public is: "Do I have job?" and "Will I have a job in the future?", "How is trade related to that?" or, "Is our economy growing because of this or not?" I think the narrative supporting the mega-regional agenda got that all mixed up. And many members of the public began to think that the trade negotiator is going to trade off domestically determined standards, because they wanted better market access. That's why it all started to collapse.

So, regarding services, that takes you into the agenda beyond trade and it is about standards and norms and deep intrusion into domestic ways of doing things. And that was put to its limits in the TTIP negotiation, which was between two continental economies that in many ways are very similar. We have to derive some lessons from that.



The second point is that we talk about trade, but trade is not the driver, at least at the North Atlantic economy. And I don't believe it is the driver with the South American-North American or South American-European economies. It's investment!

Investment is absolutely the driver of jobs and growth across much of the Atlantic. Trade follows investment, it doesn't lead it. The real world of Atlantic commerce is the reverse of what you may have been taught in economics 101. When we talk about Brexit, for instance, it's not US trade with the UK that is important, actually US trade with EU is much more important. But US companies based in the UK export as much to the rest of the EU as US companies based in China export to the rest of the world. The really important commercial bond between the US and the UK, the US and the EU, and also the UK in the EU, is the deep linkages of mutual investment. Over 2 million people in the US and the UK directly owe their jobs to these bilateral investment ties. It's a huge relationship. Mutual investments between the EU and the US are even larger. Investment is what matters, much more than trade—although trade is also significant. One must keep this underlying factor in mind when thinking about trade agreements; you want to make sure that you don't do anything that stops the investments flows.

The next difficulty, which one saw again in the TTIP but also in the EU-Canada negotiations, has to do with dispute settlement mechanisms. The traditional approach is that you must have some mechanism by which investor's rights are protected vis-à-vis the state. This is coming undone. There's no more consensus for that, and within the EU there's actually a legal decision that says you have to push that out, that it's more competence of member states than the Commission. The Trump administration interestingly also opposes investor-state dispute settlement mechanisms—a reversal of traditional US approaches. That's why I caution you when one says “the Americans,” because the Trump administration in some areas is reversing traditional US approaches, such on this issue, and in this case the business community vehemently opposes the Trump administration. One has to think about a new model, in terms of what we should think about (I'll come back to that later).

Another point important to understand about the EU is that the coming battles will be about the digital world, about privacy. The EU stance is that “privacy rights are human rights.” It's a fundamental approach. Any trade partner that negotiates now with the EU has to certify, or the EU has to certify, that it has equivalent protections for privacy to those of the EU

itself. That's a very high standard, if you think about what the EU is doing. And even under the EU- Japan deal, it's not done, because there is no adequacy determination yet on this issue. They must finalise that, before there will be a deal with Japan. And the same will be with every other bilateral deal; which makes it hard for the EU to be a multilateral partner -frankly, because they'll have to have every bilateral deal done on the privacy issue. That's why the EU is turning into a bilateral negotiator rather than a plurilateral one, because of its own internal conditions. I think that is going to be an issue that will only become more important in the future. We'll have to understand it much better.

The third point, on the EU dimension here, is Brexit. It's important to understand, at least from the US perspective, back to my point about investment, that the value chain map of Europe is not the same for American companies as the institutional map of Europe. And it's becoming less the same. The role of the UK, the role of Turkey, Norway, Switzerland (which is incredibly tied into the US economy), are all becoming more important. So, non-EU Europe is becoming much more important to the US, relative to the EU. Any type of new kinds of agreements has to encompass the broader European value chains, and not just the EU "qua" EU.

I come back to my final point, at least to your question, Renato. The deep freeze of the TTIP that you mentioned is the road to nowhere. In fact, is the road to trade wars. Both sides have agreed that the obstacles are far too high, and the incentives too low, to do anything except freeze things. Without any framework across the North Atlantic, it is a mess, and it's going to get worse. Because the US has a framework with Nafta, and with South Korea, the Trump administration argued: "Well, we have these frameworks so let's consider maybe some exceptions for those partners". The EU then had to scramble: "What about us too?" But there's no mechanism in which we can mediate these disputes. It's the daily chaos in Washington.... I think this only ends up in a bad place.

One option is to revive what is called the Transatlantic Economic Council. It was created during the George W. Bush administration, but it was a European idea. It's about "cherry picking" agreements. It's not about a big trade deal, but about very small deals, some of which are not about trade but about aligning domestic regulations. Unfortunately, this idea also did not fare well under the Bush Administration. It's a little better than a trade war, better than the Deep Freeze, but it's not much.

The idea of a revival of TTIP, or TTIP 2.0, is distant now. But I will come to my point, which is: the purpose of any of these agreements should be jobs and growth. The group that recommended the TTIP was actually called the High-Level Working Group on Jobs and Growth. If you talk to people, they worry about their job. I think speaking to that agenda, and using trade as an instrument, not as the goal, would be a far better approach in today's climate. So maybe you don't have trade agreements, if you focus on the other things that start to unite you:

1) at least across the North Atlantic, it's about how to better align the education system with the needs of the economy. It's about how workers can be trained and retrained so their skills match those needed by companies in a quickly-changing economy. The whole notion of vocational training is actually very popular in the US, drawing on European lessons. Even the Trump administration likes this. There's a big agenda there, that could be good;

2) split out the investor-state dispute settlement mechanism from "trade agreements," and deal with it on its own, to make sure investments continue to flow. But what are the terms upon which we might agree?

3) one of the original motivations for the TTIP was: "What about third countries? "Can they be part of these things?" or "Are they excluded?" The impression that was left by the US and the EU, because they didn't accept the promise that TTIP would be open to others, was of a closed shop. And this was about high standards, maintaining the high standards for people, and those standards should be the goal, not let those standards erode. That's the point about China. Either we are going to work together, and maintain the standards we believe in, or those standards will start to be eroded by countries that do not share those same views. It's not an anti-China coalition; but it is about one's own social preferences and the standards by which people should live in this economy. That could be a very good part of what I would call Job and Growth Agreements rather than trade agreements. Something different! These types of agreements could also be bilateral.

The basic point is that we can advance commercial interconnections across and around the Atlantic without reducing the issue to that of trade agreements. A focus on jobs and growth would have some resonance in the US and parts of Europe. It helps us deal with Brexit and broader European value chain issues, and is a way for us to engage with certain partners in a

different way. And it doesn't hold up progress due to difficult negotiations on trade agreements.

I suggest that this focus on jobs and growth is also worth exploring across the Atlantic South. Instead of thinking about institutional big trade agreements between blocs in the South, which sounds difficult to me, why not think about the areas, beyond trade, in which both sides could profit? Brazil invests considerably in Africa, for instance, and in lots of areas in which there is Brazilian expertise there is considerable African receptivity. Why not expand more of that agenda and find other complementary areas to promote commerce, including investment. Just think differently!

**(R. Flôres)** Thank you very much, Dan! Very interesting points! I would ask my friends here, if they want to add something. Or, should I pass the word to the floor?!

**(R. Baumann)** I fully agree there is lot of Brazilian initiatives in Africa to the point that there is a feeling we are losing ground to the Chinese. This should be our natural counterpart. But the point is, there is no other continent in the world with so many trade agreements as Africa, and yet, the percentage of regional trade is less than two digits. So, I'm sceptical about the initiative of the 40 plus African countries. And the traditional formal way of making agreements, I fully agree with you: specific initiatives, in this case in particular, provide more results than the formal agreements.

**(R. Fendt)** I couldn't agree more with you! I lived for 2 years in Africa, and things deteriorated very much since I left. There's a whole region that is getting worse and worse. You cannot have trade, or big trade, among the African countries with respect to trade agreements. Simply because the economy is too much equal, and then you have the communications/transportations problems. People look at the ways of growth of the African countries; it's the area of the world which is growing faster. But the base is so small. It doesn't matter if you grow very fast. It is not creating too many trading opportunities.

**(C. Mariani)** I will mention the problem of investment. We have been discussing with the Brazilian government for years and years, to have a model of contract with other countries, and finally we got it one year ago. So, this is moving on, and with the South American countries they are moving as well, in both directions; they are accepting the model of Brazilian contracts.

**(R. Flôres)** Wonderful news! Thank you! Well, we open to the floor!

## Questions

**(Eloy Alvarez)** It's a question to Dan Hamilton: You raised many issues, but three of them were related to: investments as a driver, not trade; second, the matter of jobs and growth, and, in your first intervention, you talked about energy as an important issue related to the Atlantic basin. So, my question is: can you detail which is the interrelation, or the connection between these three issues: energy; jobs creation and investments in the Atlantic basin?

**(Rafael Almeida)** I would like to know if we are heading to a moment of redefining alliances in the South Atlantic, specially related to Brazil and Africa.

The second question is: How can we take advantage of collecting more investments between US and China? Do we have a strategy to bring investments from either side, Chinese or the Americans?

**(Anna Ayuso)** It's about the optimism or pessimism of the EU and Mercosul agreement. I want to ask you about the possible scenarios. If the agreement is not achieved; what is the scenario after that? It will continue with an un-ended negotiation or there will be some consequences, even internal in Mercosul? And, if the agreement is achieved, which are the consequences? Not only for the trade partners (Mercosul and EU), but the other actors in the Atlantic (for example, the US)? Because it will be the first time that the EU will sign an agreement with Latin America before the US and other actors like China.

**(Kirstyn)** One question to Carlos about "investor dispute settlement"? It's that what you said?

[ **C. Mariani:** Yes, it's a format.]

**(Kimberly Garcia)** My question is for Dan: I wanted to get your sense of: how far does this attrition in the US and the Congress, in terms of trade policy, fall? And specifically, do you see that there's any sense of a fight coming in Congress? Or rather, will there be trade promotion authority?

## Answers

**(R. Baumann)** Regarding the issue of investment attraction; there has been a debate on signing investment protection agreements or not. After a few decades, we do have six or seven investment protection agreements, with

a few African countries. But, at least in Brazil right now, it's hard to see a real concern in attracting investment. Because we are receiving 60 plus billion US dollars a year, of course, a good deal of it is on non-tradables, so this raises an issue on itself. But, right now, we do have an institution, APEX, which is the one that you would address potential investors to look for and see what's going on. And, as a small footnote for "merchandising": we at the Ministry of Planning, together with the Inter-American Bank and APEX, organized last year a Brazilian Investment Forum, an experience we are renewing in May 29 and 30, in São Paulo. A number of business opportunities are raised in this type of exercise. So, these are the mechanisms that we have to attract and orient investment. Having said that, we envy the US, UK, Australia, Germany, and so on, because they have the faculty of saying "Not here" to an investor, "You cannot buy this port", "You cannot do that" ... We, in Brazil, do not have the means to do that. Except for CADE, which is the institution that forbids monopoly behaviour. It's an institution of the Ministry of Justice that deals with ensuring competition in every market. But that's the only tool we have right now, and this is an increasing concern in Brasília.

**(R. Flôres)** Thank you very much! I must say that foreign investment in Brazil is still a great success; what I heard from everybody last year, and I hope this year will be the same.

**(R. Fendt)** A small footnote on what Renato just said, there is an interesting case of the Brazilian government interfering in a particular firm. Probably many of you heard about the negative for Boeing to buy Embraer. Apparently, the Brazilian government is excluding the military division of Embraer. Just to provoke all of you, these 20 years of negotiations with EU, this is due to the fact that Mercosul is negotiating with the EU. Some people believe that we could proceed ourselves: Brazil x EU; Paraguay x EU; Uruguay x EU.... I don't buy it! Because the Argentines and Uruguayans are not disturbing very much these negotiations. The culprits are the EU and us. The decision of the Mercosul council was never published in Brazil, so it's not an official law. So, technically and legally, it cannot negotiate directly with the EU; this of course would kill Mercosul or whatever remains of Mercosul. But, just a point to 'complicate' your thoughts about this subject.

**(R. Baumann)** Another footnote: I said that there's no mechanism. We have constitutional constraints for investors in some areas (airlines, press, and banking sector). It must be formally approved. And in the case of the banking sector, it has to be authorised by the President himself. The case

of Embraer is a bit different, because the government has the golden share, hence, it is one of the partners involved in the negotiations. And, of course, Embraer has the military branch, and there are other issues involved.

**(C. Mariani)** I should remind that, in South America, we had this “integration” that started much earlier than Mercosul: it had headquarters in Montevideo, and 25 years have already passed. So, all the original agreements, between the 16 countries in South America have already reached tariff zero. Nobody talks about this. It’s an improvement in the Brazilian trade here in the South America. And the Colombians had very positive behaviour, Chile also; the only “bad cat” is Venezuela. It’s something sizable already, and for this type of operation Mercosul is not needed.

**(D. Hamilton)** I have two questions directly to me. On Brazilian investments, just to provoke my Brazilian colleagues, the problem of investments flows in Brazil is not that they might stop, instead all the rules governing them make it hard for investors. There may well be a lot of investment currently, but it could be so much more if it was made easier for investors to come here. If you couple that with law that prohibits some investments due to national security concerns. We have a process in the United States that does that. Europeans don’t have anything like that, but they are debating it.

On the EU-Mercosul issue, we have a Summit of the Americas coming up, the President said he’s coming (so, stay tuned!). Under the US Constitution, trade authority is invested with the US Congress, not with the President. What the Congress has done in the last few decades is to delegate that “trade promotion authority” to the executive branch, to negotiate trade deals, and then the executive comes back to the Congress with the deal and says “take it or leave it”, “yes or no”. Otherwise, the Congress would be in charge and you could imagine that there would be 500 amendments to any possible deal. And so, this is not workable. But the Congress must delegate this “trade promotion authority” every few years. And it’s coming up again now. The Trump administration has just applied to the Congress for a delegation of trade “promotion authority” before June (this year). It puts the Congress in a considerable position on how to monitor the administration’s trade policy. And there will be a lot of debates about this issue, over the next few months. So, coming back to my point, I can’t predict it, but this is an election year and it affects different stakeholders differently. The entire U.S. House of Representatives and one-third of the U.S. Senate is being re-elected in November. The primaries influence the debate about trade. Candidates cater to their constituencies. It’s very hard to predict. There is really a big debate. The President’s popularity is down here. But I

think there is a worthy debate on trade and there will be many more tweaks to US policies than one might get from the President's tweets.

Eloy asked about the intersection between investments, jobs and trade, and energy. Actually, you are the expert on this! I would just start again with energy; it is affected by price. The prices right now don't underscore the most ambitious scenario that we have been advancing the last few years. Nevertheless, you could argue that, if you look at all sorts of energy: renewables, biofuels, fossil fuels, ... the centre of innovation, the centre of gravity on the margin is becoming the Atlantic Basin, not the Middle East, not Russia, but the Atlantic Basin. If you go all the way down through, from Canada, down through the Gulf, through Brazil, and over to West Africa and up, you see all sorts of new types of energy sources, either coming online or, given price issues again, potentially coming online. You couple that with the bio-fuels giant of Brazil (the only other real biofuels country in the world is the US).

The biggest flow of energy from Brazil to the EU is biofuels. And if you couple that with the revolution in energy that's happening in the US, in terms of all sources and kinds of energy, the US is now not only importing but also exporting certain kinds of energy, it is changing the dynamics everywhere, and will continue. And should prices change, it will even be more. But at the moment this is the underlying fundamental that's developing, and it's not really being discussed or understood. I think that translates into investment implications, again, based on price, you could see new kinds of investment flowing in different areas. Because of the energy economy that's developing, you see a lot of European investment in the US (in Texas, European investment is amazing, because of the energy economy). The US ability now to export liquefied natural gas to Europe has forced the Russians to lower their price; Europeans are building new types of terminals in different European ports, because they want to break the dependence on Russian energy.

That's going to start to develop everywhere. The timeframe is a long one, but it is dynamic, and it will influence energy investments as well, which, of course, then turn into jobs. You will see all sorts of job opportunities in many different parts of the energy sector. We see that tremendously in the US, in areas that haven't been traditionally part of the energy economy. This is transforming a lot of state economies in ways they wouldn't



think about, and not just Texas; we have a whole book on energy and transportation in the Atlantic Basin,<sup>1</sup> and I think it's worth to read it.

**(R. Flôres)** Thank you, Dan! Well, we started late, but we shall stop in time. I would like to thank my colleagues at the roundtable very much: you did a wonderful job!

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1. P. Isbell and E. Álvarez Pelegry, eds., *Energy and Transportation in the Atlantic Basin*, Washington, DC: Center for Transatlantic Relations; distributed and available through Brookings Institution Press: the first publication by the present Jean Monnet Project (*Editors' Note*).

