Special Final Chapter

Closing Speech By His Excellency the EU Ambassador to Brazil

João Titterington Gomes Cravinho

Ladies and gentlemen,

I would like to thank Mr. Carlos Ivan Simonsen Leal and Mr. Renato Flôres, for the kind introduction, and for inviting me. It is a pleasure and an honour to participate, and after your extensive day of discussions today I hope that I am able to keep you awake and interested rather than thinking of the caipirinha that is possibly waiting for you at the end of this session.

Let me also say at the outset that I am delighted to be here at the Fundação Getúlio Vargas. This is an institution that carries with it a seal of quality in everything that it does, and I am very pleased that the FGV is addressing a theme which is of such importance for the European Union, and, I would say, for Brazil.

And it is equally satisfying for me to participate in an activity of the Jean Monnet Network on Atlantic Studies. The Jean Monnet programme here in Brazil has seven chairs, each of them carrying out important but very differentiated work related to the EU, and I think that there are great benefits in working together as a network, as indeed the Chairs here in Brazil are beginning to do.

Picking up on the themes of this meeting, I would like to talk about three aspects that relate closely to the three topics discussed in today's session. First, I want to talk about the wider principles behind the trade policy of the trade policy *(relates to Session 1 –Broad Views on Atlantic Trade)*. Second, I will present some current realities about the EU's trade relationship with Mercosul and Brazil *(relates to Session 2—The EU as a main trade actor in the Atlantic)*. Finally, I would like to give you all a few insights about the ongoing negotiations with our partners here in Mercosul *(relates to Session 3—Regional Perceptions and Integrations)*. (Actually, I will confess that a couple of months ago, when I received the invitation to speak on this occasion, I thought that it was a great opportunity because it would allow me to discuss the final shape of the EU-Mercosul agreement, after 19 years of negotiations. I believed that for sure by 22 March we would have the final result. Unfortunately, that is not the case, and so what I say about the negotiations is going to have to be a bit different from what I imagined…)

Regarding the first point on European trade policy. The essential elements are laid out in the strategic document “Trade for all”, which was issued in late 2015. It is far too simplistic to imagine that EU trade policy is just about free trade. Over the years we have learnt a lot about globalization, and one of the things that we have learnt is that we must create new rules so that the benefits of globalization can reach all sectors of our societies. It is not so much simple free trade that we are pursuing, it is much more rules-based international trade that we want. And when we engage with partners what we are doing is jointly establishing the rules that we need for our societies to have the widest and deepest benefits from trade. The keywords in the strategy are that trade should be effective, transparent and value based.

Effectiveness means that trade policy must deliver on its promises. For instance, we need to make sure that the benefits of trade reach workers, consumers and small companies. EU trade policy seeks to support the creation of new jobs. Around 31 million jobs in Europe depend on exports. These represent 1 in 7 jobs across 28 EU Member States. About 19 million jobs outside the EU depend on EU exports as well. More importantly, all these jobs tend to be high-skilled and on average better paid.

For EU trade policy to be effective it needs also to benefit consumers. EU consumers enjoy currently duty-free access for around 76 percent of all EU imports. It is estimated that the overall, EU households save annually around 60 billion euros on tariff savings because of EU trade policies. EU trade policy also has the priority objective of facilitating the internationalization of small companies. Only 25 percent of EU-based small and medium-sized enterprises export at all, and an even smaller portion export beyond the EU. A trade policy that helps improving these numbers is crucial as 99 percent of all enterprises in the EU are SMEs. So, these are the issues that concern us when we talk about effectiveness.

The second principle of the strategy is transparency. This is a priority taken very seriously by the EU because a lack of transparency undermines the legitimacy of the EU trade policy and public trust. By transparency we mean that we need to work more closely with all EU stakeholders and to have a more open trade policymaking process. For instance, the EU has opened negotiations to more public scrutiny by publishing key negotiating texts from all negotiations, including of course, texts related to the current negotiations with Mercosul. You could all now access and read texts proposals of the EU in this negotiation in the EU Commission DG Trade website. This is unprecedented, and I think that I am right in saying that it is unique anywhere in the world. For obvious reasons it does not make sense to carry our trade negotiations as a public spectacle; this would make it extremely difficult to achieve anything. But we do believe that the public has the right to know the essential contours of what we are working on, and they have the right to contribute to shaping our approach to negotiations by debating our approach in the public sphere.

Finally, trade for all means value-based trade. EU's trade policy is not just about economic interests. It is also about promoting and defending shared values like sustainable development, human rights, fair and ethical trade, responsible business conduct and the fight against corruption. The trade agreements that the EU negotiates include a chapter on trade and sustainable development. For example, the text proposal of the trade sustainable and development chapter that the EU tabled with Mercosul in the current negotiations—which, as mentioned, anyone could find on the DG Trade website—includes rules intended to promote the implementation of provisions on core labour standards, on the effective implementation of multilateral environmental agreements, the enforcement of domestic labour and environmental laws—the level of protection of which should never be lowered to attract trade and investment—and the promotion of responsible management of supply chains.

Based on this trade policy view, the EU has constructed its trade and investment relationship with Mercosul and Brazil. Let me now provide you with a general view of how our relationship is with these partners.

The EU has a long-lasting trade and investment relationship with Mercosul and with Brazil.

In 2016, the EU was its biggest trading partner, accounting for 21.8 percent of the bloc's total trade (*data for 2017 on how the EU relates to other trade partners of MCS is not yet available, but there are indications that we may have been overtaken by China)*. The EU's exports to the four Mercosul countries totalled €44 billion in 2017; their exports to the EU were €42 billion in 2017. This made Mercosul the 9th biggest trading partner of the EU, accounting for 2.3 percent of the EU's total trade. In 2016 the EU exported €20 billion of services to Mercosul and imported €11 billion. The EU is the biggest foreign investor in Mercosul, rising from a stock of €253 billion in 2010 to €447 billion in 2016. What is less well known is that Mercosul is also a major investor in the EU, with stocks of €104 billion in 2016.

Looking specifically at Brazil, this country is the EU's eleventh trading partner accounting for 1.7 percent of total EU trade in 2017: around €63 billion. In 2017 EU exports to Brazil reached €32 billion, making Brazil the 17th biggest exporting market. EU imports from Brazil in 2017 were of €31 billion, becoming the 12th biggest import origin for the EU. In 2016 the EU exported €13 billion of services to Brazil and Brazil exported around €8 billion to the EU.

Perhaps most importantly, Brazil is the EU's third main destination of foreign direct investment, only behind the US and Switzerland; there is greater EU investment in Brazil than in China and India together: Brazil holds 48.5 percent of the entire EU investment stock in Latin America and represents 81 percent of EU investment in Mercosul. It is estimated that the investment announced by EU companies between 2006 and 2015 created more than 278,000 jobs in the Brazilian economy. These jobs accounted for half of all estimates of jobs generated by greenfield investments announced by foreign companies in Brazil. But this investment is not only one-way. Brazilian companies have also invested in the EU. Over in 2006-2015 period, Brazilian companies announced 115 greenfield investment projects, totalling € 2.1 billion, distributed among 15 countries of the EU. The estimated generation of jobs linked to these announced investments was of 6,405 new openings.

All these numbers illustrate the increasing economic interdependence between the EU, Mercosul and Brazil and the importance of trade for all our economies. They also remind us of the importance of finding new ways to further develop the economic benefits of our relationship. On that front, the most important current initiative to make the most of the economic potential of our partnership is undoubtedly the conclusion of an ambitious Association Agreement between the EU and Mercosul.

The EU-Mercosul agreement has been a long time coming. The negotiations were launched in the last century of the past millennium, 19 years ago. Back then, Brazil was only *tetracampeão do Mundo*; Mark Zuckerberg, the creator of Facebook, was a 15-year-old kid completing freshman year in high school; and, most importantly, the world was going to end because of the Y2K problem and the millennium bug. The political and economic context back then was also drastically different. For example, the EU was composed by only 15 countries and the German mark, French franc, Italian lira coexisted for three more years with the new euro.

Negotiations between Mercosul and the EU have not been the swiftest, nor the easiest. There have been a lot of stumbling blocks on the way. However, parties have shown that negotiations have gained a new momentum in the past couple of years. In May 2016, offers were exchanged for the first time in 12 years and, since then, talks have intensified significantly. Several negotiations rounds have taken place with significant progress reported. These technical talks have been backed up by a strong political will, as demonstrated by the recent Ministerial meetings in December in Buenos Aires and in January of this year in Brussels.

Of course, the closer the negotiations get to the end, the harder the challenges. Parties are moving forward now by tackling the most difficult issues. The most recent round of negotiations in Asunción in the end of February reported good and steady progress. Now both sides are in touch to continue the work to bridge outstanding gaps.

After so many years of negotiations and now that we are seemingly in the last stretch, it is important to remind why this agreement is so important for the EU and for Mercosul.

The Association Agreement will generate increased flows of goods and services for the benefit of all. EU and Mercosul companies will both get new market opportunities. The world economy today is made up of integrated global value chains. Our economies are highly inter-connected, and the great majority of companies need to buy inputs or sell their products internationally. Products are no longer made simply in any one place. And services have an increasingly important role, including in the production of goods that are traded. Parts, components, raw materials and services from many different countries come together in a planetary production line. By opening up to each other, our companies will pay lower prices for inputs and reach new clients.

We will both be able to produce more and better by participating in larger markets. We will also benefit from the complementarity of our economies. Consumers on both sides of the Atlantic will get better choices and lower prices; and trade agreements bring more confidence to investors, benefiting everyone. Already now, the Mercosul region represents one euro in twenty of the foreign investment our companies make. Across this region, over 5000 affiliates of EU companies employ more than 1.5 million people.

In Brazil alone, Spanish company Telefonica supplies nearly one hundred million people with access to phones, mobiles, TV and the internet.

The Volkswagen plant in Pacheco, near Buenos Aires, sells its Amarok model in almost 70 markets all over the world. Greater access to global markets offers a great opportunity for products and businesses from Mercosul, which is still relatively closed in on itself. Opening more to the world means new and greater opportunities to attract new investment, and export more.

Particularly in Brazil, several studies have quantified the benefits that an agreement would create. A study by FIESP (2014) showed that the agreement would have the potential to increase Brazilian exports by 12 percent. It further highlights that due to the ambitious scope of the agreement, it could boost the transfer of technology and technical cooperation with Brazil. A study of the FGV indicated that an agreement could increase Brazilian GDP by 2.7 percent. This study also found that agribusiness exports from Brazil would increase 60.8 percent by 2030.

If compared to other EU agreements in the region, these numbers seem even more realistic. For example, in the first four years from the entry into force of the agreement between the EU and Chile, exports from Chile to the EU quadrupled. In the case of the agreement between the EU and Mexico, Mexican exports to the EU have increased 15 percent. The benefits are so clear for both parties, that recently the EU and these partners launched negotiations to modernize these two agreements.

An ambitious agreement could also create positive dynamic effects in the economy. Recent studies of the World Bank and of OECD (2018) point that Brazil can seize greater benefits from greater global and regional integration. Brazil's integration into global trade is much lower than in other emerging economies, as tariff and non-tariff barriers in Brazil shield enterprises from global opportunities and foreign competition. More exposure to trade will allow companies to source the best inputs and capital goods from international markets and will also raise productivity among domestic producers as they improve efficiency and seize new export opportunities. According to these studies, this would create new jobs, especially for those in lower skills and incomes. Consumers will also benefit from more competitive prices, with strong effects on low-income households.

A recent study made by the Secretary of the Presidency for Strategic Affairs reached a similar conclusion. According to this study in a scenario of full tariff liberalization over a period of 20 years, Brazil would increase productivity and Brazilians would benefit of a reduction of 5 percent on consumers prices. More importantly, the study finds that in 48 out of 57 economic sectors in Brazil, employment levels would increase or at least would be maintained—while the decrease in the remaining 9 sectors would be limited ranging from 0.5 to 2 percent maximum.

In sum, all these numbers point to the fact that the conclusion of an ambitious Association Agreement between the EU and Mercosul will benefit both sides. Nowadays we are seeing that voices of protectionism and indeed advocates of trade wars, are spreading fast and are unfortunately materialising. The agreement would be a clear signal to the world that, rather than closing markets, the way to move forward is to find better instruments to integrate our economies in an effective, transparent and value-based way.

In other words, we not only have the opportunity to benefit our own citizens, we also have the opportunity of sending an important message to the world.

Thank you.