



House of Commons
Trade and Industry Committee

**Trade with Brazil and
Mercosur: Government
Response to the
Committee's Seventh
Report of Session
2006–07**

**Sixth Special Report of Session
2006–07**

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The Trade and Industry Committee

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Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), David Slater (Second Clerk), Robert Cope (Committee Specialist), Ian Townsend (Inquiry Manager), Anita Fuki (Committee Assistant), Jim Hudson (Senior Office Clerk) and John Staples (Secretary).

Contacts

All correspondence should be addressed to the Clerks of the Trade and Industry Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is tradeindcom@parliament.uk.

Sixth Special Report

The Committee published its Seventh Report of Session 2006–07 on 13 June 2007.¹ The Government's response was received on 23 July 2007 and is published as an Appendix to this Report.²

Government response

Introduction

The Government welcomes the Trade and Industry Select Committee's Report on trade with Brazil and Mercosur. It particularly welcomes the Committee's broad support for UK Trade & Investment's strategy.

The Report makes some valuable recommendations on the need to increase awareness of the commercial opportunities in Brazil and dispel some of the misconceptions about the market. The Government will seek to build on what it is already doing in both respects in responding to the recommendations.

We welcome the Committee's recognition that the UK-Brazil Joint Economic and Trade Committee (JETCO) provides an important vehicle for developing the UK-Brazil bilateral relationship and addressing the barriers to trade in the market. We agree with the Committee that we need to engage with business in this process and we are particularly appreciative of the contribution being made by the CBI to develop our business relations with Brazil and their active support for the JETCO process.

The Report's support for the Year of Science is also appreciated and already we are seeing a programme of activity which is beginning to have a positive spillover effect into the general UK-Brazil trade and investment relationship.

The Government welcomes the backing the Report gives for the decisions that have been made to focus additional UKTI resources on Brazil to give greater priority to developing the significant potential of this market. We recognize the Committee's concern about decisions taken in relation to the smaller Mercosur markets of Paraguay and Uruguay, but difficult decisions had to be taken to free up resource from around the network in order to strengthen the commercial teams in the high growth markets.

The Government is already acting in many of the areas covered by the Committee's recommendations as part of the new high growth market strategy for Brazil. This aims to deliver a 'step change' in the trade and investment relationship between Brazil and the UK.

1 Seventh Report from the Trade and Industry Committee, Session 2006-07, *Trade with Brazil and Mercosur*, printed as HC 208-I on 13 June 2007

2 The Paragraphs in bold type are quotations from the list of Conclusions and Recommendations in the Committee's Report.

Conclusions and Recommendations

The Government's response to each of the Committee's conclusions and recommendations is as follows:

Why is the UK lagging behind its competitors?

1. As UK Trade and Investment said: "Compared to the media attention given to other rapidly developing economies such as China and India, Brazil suffers from outdated stereotyping and poor knowledge. UKTI and other agencies could help importantly to fill this knowledge gap." We agree. Lack of knowledge and outdated perceptions among UK businesses appear to us to be the main reasons underlying the lack of UK engagement with Brazil compared with our competitors. We have seen many examples of opportunities in Brazil and the rest of Mercosur that could be exploited, and indeed are being exploited by competitors. We hope that by raising awareness of both the opportunities and risks involved in these markets, this Report and its supporting evidence will make a useful contribution to those companies who are considering trading with or investing in Brazil, Argentina and the other Mercosur countries. (Paragraph 29 and 41)

The Government welcomes the role this Report is playing in raising awareness of the opportunities in Brazil and Mercosur. We are building on this by raising the profile of Brazil both within UKTI's own network in the English regions and also with businesses. We have recently set up a network of regional champions for Brazil which will, in turn, help to raise awareness with business. We intend to generate greater publicity about the opportunities in Brazil through articles in regional and national trade publications supported by success stories and case studies involving UK companies. In addition we are increasing the quality of market information available through our website and new publications which will be widely distributed through UKTI's regional network, Posts overseas and through events to businesses interested in Brazil.

In the last month we have appointed a high growth market specialist from the private sector with extensive experience of Brazil. His remit will be to work with UKTI's Latin America desk and other stakeholders to raise awareness of the opportunities in Brazil and provide business development advice and market intelligence to a carefully selected list of mid corporate target companies. The specialist will also feed back intelligence on customer needs and barriers to doing business in Brazil.

Opportunities for business in Brazil

2. We generally agree with the selection of the seven priority sectors (agriculture, engineering, environment, healthcare and life sciences, oil and gas, sports and leisure infrastructure, and chemicals) and six opportunity sectors selected by UKTI for 2007/08. However, given Brazil's BRIC status it is perhaps surprising that only one sector—oil and gas—is considered a global priority. It is also unclear why two out of the three strategic sectors identified bilaterally as part of the Joint Economic and Trade Committee (JETCO) process during 2006/07—aerospace and financial services—are only UKTI opportunity sectors for Brazil in 2007/08. It is imperative that there is consistency between the priorities of JETCO and UKTI. We also hope

that the UKTI sector strategies currently under development (covering ICT, life sciences, creative industries and energy) will reflect the due importance of Brazil alongside the other BRICs, particularly China and India. (Paragraph 49 and 99)

UKTI's sector priorities are determined by a range of factors that are influenced both by the scale of the opportunities in the markets under consideration, private sector recommendations, the priority of a market overall and the strength of compatible UK capability, capacity and interest.

In the case of Brazil the combination of these factors, plus the resource pressures which necessitate limiting the number of priority markets, may not always result in the sectors identified in market as having the highest priority being accorded this status by the sector groups.

For example, in the case of aerospace, while the growth of Embraer in Brazil represents a very significant opportunity, the difficulties (and associated investment costs) of entering the Embraer supply chain make this a challenging long term prospect for the UK industry. While the growth of other opportunities, such as selling to Airbus and Boeing, is also absorbing much of the capacity of the UK industry, the challenging task of persuading companies to look at the less well known and more demanding prospects offered in Brazil becomes even more difficult.

It is for this reason that, on the global scale of priorities, the aerospace sector in Brazil rates as an 'opportunity' rather than a 'priority'. The balance of these competing factors is kept under constant review and as the relationship evolves (and the awareness, capacity and capability of UK industry shifts) the de facto priority (and hence a measure of sectoral resources) may move to reflect this.

It should also be noted that the sectors which currently feature in the UK-Brazil JETCO are there because they are considered of high importance to either Brazil or the UK. Both countries do not necessarily attach equal weight or importance to each of these sectors. This is another reason why these do not directly match those identified by UKTI as sectors for which Brazil is a priority.

UKTI is supported in its sector prioritisation work by Sector Advisory Groups, which bring together key advisors representing the range of companies in a given sector. These groups have senior business representatives as Chairs and play a key role in helping UKTI target its efforts strategically where business most needs it, helping set priorities and allocating resources. Members of Sector Advisory Groups also play an important role in the business input to Government to Government working groups.

UKTI makes no distinction between "priority" markets and "global priority" markets. There is no difference between the oil and gas sector and the other six sectors for which Brazil is a priority. Looked at across the board, Brazil's importance is reflected in UKTI's sector prioritisation for this financial year with the third highest total number of sectors in which it is a priority or opportunity market behind only China and India.

3. While we welcome the setting up by UKTI of the Financial Services Sector Advisory Board (FSSAB) because of the importance of financial services to the UK economy, we note that the UKTI financial sector strategy mentions Brazil only in

passing, and that country strategies are planned for China, India, Russia and the Gulf, but not Brazil. We believe the scale of opportunities for financial services available in Brazil should be recognised by placing the market on a par with China, India and the Gulf, or at least above other emerging markets. As UKTI is developing dedicated China and India financial strategies, with Russia to follow this year, a dedicated strategy for Brazil should be seriously considered. (Paragraph 109)

4. We also hope that these developments and the Lord Mayor's planned visit to Brazil later this year will help encourage the London Stock Exchange to establish a permanent presence in Brazil, as ThinkLondon, London's inward investment agency have in partnership with UKTI. This would have the potential to serve as a base for the whole of South America and increase competition with the New York Stock Exchange. ThinkLondon also recently reached the first bilateral investment promotion agreement between a Chinese and a European city, and we believe there is scope for a similar initiative with São Paulo, for example. (Paragraph 110)

One of the first tasks of the FSSAB, after being established in December 2006, was to refine market priorities. In line with the increasing opportunities in the South American market, the FSSAB recognised the strategic importance of the financial services sector in Brazil and has designated Brazil as its most important opportunity market. Mexico and Argentina now also feature in the list of opportunity markets which UKTI will target as part of its financial services strategy. UKTI is working closely with the Lord Mayor's office to make the most of the opportunities identified, such as LSE/AIM listings, when the Lord Mayor visits Brazil and Mexico with a business delegation in August and September. Other activities beyond the Lord Mayor's visit are also being planned. For example, there is likely to be a financial and professional services element surrounding the Ministerial UK-Brazil JETCO in the autumn.

The Lord Mayor's visit to Brazil will provide a useful assessment of the real extent of financial services opportunities in the market. This will be followed up with discussions at the FSSAB to agree how best subsequently to engage with Brazil.

The London Stock Exchange has developed a strategic business development plan for Latin America. The plan has been resourced and is now being implemented. Within Latin America, Brazil is a high priority market for the London Stock Exchange. Their current strategy, prioritisation and resourcing, is considered appropriate to meet their objectives, and any decision in the future to open an office will obviously be a commercial decision for the them.

In financial services, it remains important for UKTI to develop and implement successfully the five strategies for what are currently its top priority markets (China, India, the Gulf, Russia and the United States) to which it committed itself in the City Strategy last year following extensive stakeholder consultation. These efforts remain a priority for the deployment of the UKTI Financial Services team's resources. Any additional undertaking would need to be taken in the light of these operational considerations.

The UKTI/Think London shared investment resource in Sao Paulo is relatively new and is currently exploring the potential for FDI from Brazil to London and the UK. As part

of this process, the London Development Agency and Think London are keen to build links with their counterpart organisations in Brazil and would be open to the possibility of a bilateral investment promotion agreement with Sao Paulo.

5. In science, as we have discovered in other areas, Brazil receives less attention than China and India. We hope that the Year of Science will ensure due weight is given to Brazil's strengths in life sciences in particular, and to the possibilities for mutually beneficial co-operation between Brazil and the UK. We fully support the Year of Science with Brazil, and hope that it will not only contribute to a better understanding of the potential of Brazil in science, but also result in a positive spillover effect into the general UK-Brazil trade and investment relationship. (Paragraph 138)

The Government recognises that Brazil has a major influence on global scientific issues due to a variety of factors including size, population, regional location, geography and geology. In particular, it is a world leader in some areas, for example biodiversity, environment and renewable energy, biotechnology, health (tropical diseases) and agricultural research.

Four months into the Year of Science, there are already encouraging signs that the Year is gaining good momentum and moving UK/Brazil science and technology relationships to a new level. Initially this has concentrated on areas identified under the Joint Action Plan for Science, Technology and Innovation: R&D in health and agriculture; climate change and energy; nanotechnology; and science and technology management practices. Illustrative activities include showcasing the most innovative research coming out of the UK science base in recent years and fostering collaboration between relevant academic communities on that basis. Further examples are Memoranda of Understanding covering areas such as space, agricultural sciences and synchrotron technology and also exploration of the scope for a Brazilian presence on a UK research park.

Through developing a better understanding of the UK science base, it is envisaged that Brazilian researchers may be more likely to regard the UK as a partner of choice when considering international research engagement strategies. We are in discussions with the Brazilian authorities about how best to facilitate the establishment of joint funding agreements, as well as joint peer review mechanisms. Through such UK-Brazil interaction on science, technology and innovation, Brazilian policy makers will also gather an understanding of UK practice regarding science based policy making and strategy.

The cumulative effect of activities within the Year and sustained engagement thereafter should both significantly enhance UK-Brazil relationships and promote a process of engagement between research institutions, government organisations responsible for science and high-tech companies which may benefit from investment in either direction. This will facilitate UK/Brazil high-tech trade and investment links, one of the specific key objectives of the Year.

6. We welcome the commitment of the UK and Brazil to a bio-ethanol partnership with South Africa, which was reinforced by expressions of support for renewable energy trade and investment partnerships generally, and particularly in ethanol, in

the UK-Brazil JETCO recommendations. In doing so we note that criticism is frequently made of Brazil's bio-ethanol production, including the threat posed to the rainforest. However, all large-scale agriculture has biodiversity implications, and while the rainforest is clearly vitally important, we have been assured that the areas most suitable for sugarcane production are not rainforest areas. (Paragraph 136)

The UK-Brazil-Southern Africa Biofuels Taskforce aims to develop sustainable biofuel production, use and trade in Southern Africa, to enable the region to become part of a global market. The UK recognises there are important concerns related to the environmental and social sustainability of biofuels and is strongly supporting international moves to promote sustainability standards for biofuels. Sustainable biofuels have the potential to bring real benefits for Southern African countries: energy security, poverty alleviation, as well as contributing towards global climate security.

The UK sees its role in the Taskforce as contributing expertise on ways of attracting carbon financing into biofuels projects within Africa. The UK can also bring an EU perspective on international trading in biofuels, including emerging sustainability standards.

Ethanol demand is forecast to rise, and by 2013 the Brazilian Government expects the area planted with sugar cane in Brazil to have doubled. There are 80 sugar mills under construction and foreign investment in ethanol production in Brazil is increasing rapidly. Cultivated land for sugar cane production is located in the "new frontier" region in the south of the country.

7. We note the unfortunate limitations for UK businesses caused by the Brazilian Government's local content rules for present and future Embraer models, and that the UK remains disadvantaged against competitors with an established local presence. We welcome the selection of Aerospace as a JETCO strategic sector, and hope that the proposed JETCO working group on aerospace will be successful in reducing the barriers. (Paragraph 103)

Since the publication of this Report, further progress has been made in this area. UKTI had a meeting at the Paris Airshow in June with a number of Brazilian companies, including Embraer. They explained the steps that UK companies need to take to enter the Brazilian market and agreed to further dialogue (under the JETCO banner). UKTI is now pursuing this and will facilitate further contact between Brazilian and UK companies in this sector in the next few months, possibly with an inward mission to the UK.

8. Brazil is unlikely to be a market that presents immediate or easy wins for SMEs, and we therefore agree that medium-sized and large companies should be the focus of UKTI support for this market. However, the experience of our EU competitors shows that it is possible to open up opportunities for smaller companies as part of the supply chain for larger companies breaking into the Brazil market. We would welcome more emphasis on this area in UKTI's work. Moreover, where niche companies are looking to trade with Brazil or opportunities for smaller companies present themselves, UKTI should provide them with the necessary support and information. (Paragraph 46)

The Government recognises the importance of focusing on medium-sized and large companies for the Brazilian market. As already noted, UKTI has recently recruited a high growth market specialist (from the private sector, with extensive experience of Brazil) who will have an important role to play in this area. His remit will include providing business development advice and market intelligence to mid corporate target companies.

However, SMEs continue to be a key client group for UKTI. Building on customer research, UKTI will work to ensure that its portfolio of services meets the requirements of clients, large and small. UKTI's highly successful "Passport to Export" programme for new-to-export companies will continue and will be developed further to focus on particular customer groups that have real potential to add value to the economy. This includes innovative and "born global" companies, many of whom are SMEs.

Barriers to trade with Brazil

9. While language is clearly a barrier, the language problem is not unique to Brazil: foreign businesses in China also need to employ Chinese speakers. The damaging presumption, still too widespread in the British business and political culture, that English is the universal language of trade and the only necessary linguistic tool when doing business abroad, is harming our commercial prospects in Brazil just as it is in many other markets around the world. (Paragraph 57)

The Government recognises the importance of an understanding of local languages and cultures and believes that knowledge of these can often be critical to a UK business' success in Brazil, as with many other markets.

A good example of the Government's commitment in this area is UKTI's Export Communication Review scheme which is specifically designed to help companies to communicate effectively anywhere in the world. In these Reviews all aspects of a company's relationship with its overseas customers are considered, including the importance of communicating in customers' native languages.

10. Tariff and customs barriers do impede trade with Brazil. However, though tariff and customs barriers cause annoyance to potential importers and may provide opportunities for corruption, the situation is no worse—and in some cases less serious—in Brazil than in other developing countries. It is important, though, that this issue is addressed in the JETCO process. (Paragraph 61)

The Government agrees that the JETCO process has a role here, not least in helping to identify and clarify the nature and impact of barriers, as well as the scope for addressing them. We are already addressing this important issue in the JETCO process through a programme of FCO-funded projects to promote economic governance in Brazil. For example, the CBI is delivering a two-year programme of activities aimed at improving the business environment in Brazil. Events will include the preparation, with CBI's counterparts in Brazil, of an "Agenda for Action" on issues such as taxation and regulation, and a separate programme of training for businesses in Brazil on issues such as internationalisation and marketing.

However, it is important to note that tariffs and customs barriers are areas of European Community competence, where the European Commission acts on behalf of Member States on the basis of mandates agreed with Member States. Tackling these barriers very much links in with the Government's support for the World Trade Organisation's rules, the need for an ambitious, pro-development outcome to the Doha Development Agenda (DDA, the current WTO Trade Round) and the ongoing EU-Mercosur negotiations, as well as anything else that can be done at a UK/EU level. The Government will therefore continue its strong commitment to these and work with, and through, the European Commission, in cooperation with business, to seek to ensure significant barriers are addressed.

11. UKTI said that while local partners were not a requirement, “if you have got a local partner it is a lot easier to get through the mass of regulation. [...] it is imperative for British companies that want to really establish themselves in the market to have some local knowledge.” We note the strong positioning of UKTI to help UK businesses identify such partners. (Paragraph 69)

The Government is pleased that the Committee recognises UKTI's ability to help UK businesses identify local partners. This is an important part of UKTI's services provided by Posts across the world, in particular through its chargeable Overseas Market Introduction Service. This gives UK companies access to country and sector-specific business advice including advice about potential local partners and commercial services such as lawyers and accountants.

12. Brazil's failures in intellectual property rights protection lie in the area of enforcement, not legislation. The UK has a good record in enforcement and could provide useful training and advice. Without advances in enforcement, Brazil may well not receive the investment it needs to develop high-tech and science R&D, from either the UK or elsewhere. (Paragraph 89)

The Government agrees with the Committee that there are issues relating to the implementation and enforcement of intellectual property rights in Brazil on which the UK is well placed to offer assistance. In parallel with the work of JETCO on this issue and in the context of the Year of Science (which has served to raise the profile of these issues in Brazil), FCO Global Opportunities Fund support has been secured to fund a joint project between INPI (Brazil's intellectual property organisation) and the UK's Intellectual Property Office. The support will be encapsulated in a Memorandum of Understanding and will aim to deliver the following collaborative programme; changing information about new developments within the protection system of industrial property in both countries; exchanging experiences and knowledge about the role of the UK Intellectual Property Office and INPI as official bodies engaged in promoting policies for the development of industrial competition and providing technical information for intellectual property users, as well as for stimulating the dissemination of an intellectual property culture in both countries; exchanging experiences and aptitudes on quality management of the UK Intellectual Property Office and INPI with the aim of improving internal proceedings; and exchanging technical experiences in the areas of patents, geographical indications, technology transfer and trademarks.

This follows on from an already established relationship through which the UK has already provided some training for patent examiners in Brazil. More training is currently being discussed. These initiatives are welcomed by both parties but in particular by INPI, as they have identified collaboration of this kind as a priority for them.

It should also be noted that patent regulation and intellectual property rights enforcement in Brazil will soon be brought into the international system of regulation. To achieve this, INPI has presented its candidature to the International Searching Authority and to the International Preliminary Examining Authority. Brazil intends to present its formal candidature to these organisations at the next World Intellectual Property Organization General Assembly which takes place in Geneva in September. The inclusion of Brazil in these activities will help to ensure that Brazil's enforcement of intellectual property rights becomes more closely aligned to international standards. Our objective is to assist the Brazilian authorities in this process, through specific activities targeted at policy-makers and influencers. A major seminar on the topic will be held in December 2007 in the context of the Year of Science.

13. Because of the constitutional and political issues that lie behind the non-ratification of Brazil's bilateral investment agreements an Investment Protection and Promotion Agreement between the UK and Brazil is unlikely in the near future. It was perhaps over-ambitious to include such a difficult issue in the JETCO priorities, but it nevertheless remains an important goal for UK business, and we urge the Government to do all it can to ensure that progress is made. (Paragraph 92)

Brazil began negotiating Investment Protection and Promotion Agreements (IPPAs) during the mid 1990s and six of them have been considered in Congress since 1996. All of them have been shelved. The Brazil-UK IPPA entered Congress in 1996 and was archived in 2004 based on a parliamentary understanding that this instrument provided preferential treatment to overseas investors. The alternative proposed by the Chamber of Foreign Commerce (CAMEX) is to promote investment protection agreements via chapters within other bilateral agreements.

In an effort to revive this discussion, the OAB/DF (the Brasilia branch of the Brazilian Bar Association) has recently put together a working group made up of leading Brazilian law firms who realise the importance of having that particular instrument to attract foreign investment. Their work is aimed at pressing and influencing congressmen to re-examine the IPPAs and re-assess their position. As part of the work under the JETCO, UKTI staff are maintaining close links with the OAB/DF and supporting their efforts to give new impetus to the process of putting an IPPA in place between the UK and Brazil.

14. A number of our witnesses were very concerned about the lack of a double taxation agreement between the UK and Brazil. We were also told of UK businesses that had invested via Italy in order to benefit from the better tax situation. We find it difficult to believe, therefore, that this is having no effect on statistics regarding UK investment in Brazil. It seems there is a certain amount of intransigence on both sides. We therefore urge the Government to re-examine this matter which seems likely to be putting us at a disadvantage vis à vis our competitors, and remains a key priority of UK businesses. If the re-examination demonstrates the significance we

anticipate, then such a treaty must become a key objective of the JETCO process. (Paragraphs 34 and 96)

Brazil's treaty policy is very different from that of the OECD and of the UK and there are currently no indications that Brazil is willing to change this policy to a significant extent. This has been made clear in recent extensive conversations between UK and Brazilian tax authorities. However, channels of communication are being kept open and the tax authorities are working closely together. For example, agreements are being created to cover Exchange of Information and taxation of aircrew. In addition, there are regular exchanges between senior HMRC officials and those of the Brazilian tax authority.

The Government is not aware of UK businesses channelling substantial investment in Brazil through Italy or other EU states. There is nothing in the 1978 Brazil/Italy treaty or those treaties with other states which sees Brazil relaxing its source state taxation policies.

The UK will continue to press Brazil, through the JETCO process and other channels, to reconsider its treaty policies with a view to the negotiation of a double taxation agreement which is closer to the OECD Model and acceptable to the UK. This remains an important long-term goal.

15. We recognise that a number of real, if surmountable, barriers exist to trade with and investment in Brazil, but given that these generally face our competitors as well, we find these insufficient to explain the relatively poor performance of the UK. Other than the problems we have outlined, witnesses did not pinpoint any other factors that would explain this situation. We are therefore led to conclude that awareness and perception issues are the greatest barriers to trading with Brazil. We hope that this Report will help to make British business more aware of the opportunities afforded by, and give indications of how companies can tackle some of the difficulties involved in doing business with, Brazil. (Paragraph 82)

The Government welcomes the role this Report is playing in both raising the awareness of the opportunities in Brazil and also how the Government and UK companies can tackle some of the difficulties involved in doing business with Brazil. We intend to address this in parallel with our work on raising the profile of Brazil. For example, by using case studies in articles and publications showcasing UK businesses who have succeeded in overcoming difficulties in entering the Brazilian market. We also intend to generate greater awareness of how to tackle the Brazilian market by using our regional resources and direct customer contact via awareness raising seminars and our recently established network of regional "champions" for Brazil.

In order specifically to address the insufficient understanding of the nature of the barriers to trade with Brazil and how to overcome these we are working on a Brazil Business Guide. This will cover issues such as researching and entering the market as well as best practice and business etiquette in Brazil. Once published, it will be widely distributed through UKTI's regional network, Posts overseas and at events for businesses interested in Brazil.

As already noted, the UKTI high growth market specialist will have an important role to play in this area by providing business development advice and market intelligence to mid corporate target companies. In addition to this, UKTI will continue to promote its suite of trade services which are aimed at helping UK companies to overcome barriers to trading in overseas markets.

Tackling the barriers

16. We support the creation and work of the UK-Brazil JETCO, but note that its success will depend on maintaining both political and business interest and involvement in both countries. We are pleased to see that events are being planned which will serve to raise awareness of the available opportunities, but while we recognise it is still early in the life of the JETCO with Brazil, progress over the six months since the Ministerial meeting has been limited. Certainly the planning work so far needs to be converted into genuine action: we believe that it is essential that momentum is maintained to ensure the continued support of business and to maximise JETCO's awareness-raising potential. (Paragraph 87)

The Government believes that good progress has been made with the JETCO process since the first Ministerial meeting last year but agrees with the Committee about the importance of maintaining momentum behind the process. We are working very closely with the CBI in developing our business relations with Brazil. The CBI is an integral part of the JETCO process and will be arranging a major business to business event to coincide with the Ministerial JETCO in September. Furthermore, Andrew Cahn, UKTI's Chief Executive, will be visiting Brazil in October accompanied by Martin Broughton, President of the CBI, to promote the UK as a major trade and investment partner.

At the end of June an important event entitled: "Brazil: New Business Opportunities" took place in the DTI Conference Centre. This specifically fulfilled one of the recommendations of the JETCO agreement. The event was organised by the Brazilian Embassy (with significant UKTI help and support) and brought together UK and Brazilian businesses in four sector-specific workshops on Biofuels, Clean Development Mechanism (CDM), Healthcare, and Information and Communication Technology. The workshops allowed UK businesses to learn about the opportunities in these sectors in Brazil and also provided a forum for discussion about possible joint ventures and trade. The speakers at the workshops were mainly business people with Andrew Cahn and his Brazilian equivalent giving the opening addresses at the event. The event was attended by more than 100 UK companies.

Solid relationships have been established at both the Government and private sector level and an ambitious programme of activity is underway including missions, seminars, and technical-level exchanges on key issues.

17. We welcome the positive contribution of the new UKTI strategy on resources committed to the Brazilian market. We note, however, that these resources have only partially reversed the decline seen after the 2004 Spending Review and the closure of UKTI's regional offices in Brazil, and that these remain more than 10% below the level seen in 2003/04. We acknowledge, but do not fully share, the CBI's view that,

for UKTI generally “an excessive concentration of resources on China and India could lead to missed opportunities elsewhere”. (Paragraph 44 and 45)

The Government notes the Committee’s view. Unfortunately the difficult spending climate of the past few years led to UKTI having to cut resource across its network following the 2004 Spending Review. As the Committee recognises, Brazil is now a key market for UKTI and as a result has seen an increase in resources since then which shows the strength of our commitment to Brazil.

18. We have previously raised concerns about unhelpful competition between the English Regional Development Agencies, and the vital need for co-operation between UKTI and them. We were therefore relieved to hear that these bodies do not have permanent on-the-ground presence in Brazil, and there is little sign of damaging competition between them in their Brazil-related activities. (Paragraph 52)

The Government notes the Committee’s comments. The issues raised by the Committee about interaction between UKTI and the Regional Development Agencies are addressed in our parallel response to their Report on Marketing UK plc—UKTI’s 5 year strategy.

Brazil v. the rest of Mercosur

19. We also note the view expressed by British Expertise that the greatest opportunities may not be in Brazil but in the smaller countries in the region. UKTI must ensure that while focusing on key emerging markets like Brazil it does not miss out on opportunities available from smaller markets in Mercosur and Latin America more generally and ensure that it transmits these opportunities to UK businesses. (Paragraph 177)

UKTI currently has teams in 13 markets in Latin America as well as dedicated officers in London responsible for the region. UK companies looking to do business in these markets companies can take advantage of the full portfolio of UKTI services.

One of UKTI’s most important services is matching UK companies with international business opportunities gathered by our overseas teams. This is achieved by publishing a range of market pointers, private sector opportunities, multilateral aid agency tenders and public sector leads onto UKTI’s website.

Each Latin American market (covered by UKTI) also has its own page on the portal with information about the opportunities in the market as well as country information such as customs and regulations and cultural issues.

In addition both the Posts and the market desks in London distribute information to UKTI’s international trade teams in the region about markets when appropriate. In turn, this information is then passed on directly to UK businesses.

Argentina

20. UKTI told us that in the longer term Argentina’s economic recovery would require structural reforms: “combating tax evasion, excessive bureaucracy,

corruption and an inefficient judiciary system will be essential to improve Argentine competitiveness. Improvements in legal and judicial security are needed to attract, and maintain, foreign investment.” We agree. (Paragraph 155)

An improved structural system would enhance Argentina’s longer-term economic recovery. This is a message that the Government projects to the Argentine authorities and business community at all opportunities.

In terms of practical co-operation, Argentina is a priority country for the Economic Governance Programme of the FCO’s Global Opportunities Fund. Combating corruption is a particular focus of the British Embassy’s project work. Recent and ongoing Embassy projects have supported: the strengthening of the Anti-Corruption Office in Argentina as an institution; the introduction of more transparent public procurement mechanisms; the training of police and prosecutors in corruption investigations; and an evaluation of the impact of tax evasion on the national economy. Other projects have included a redesign of the tax system in one of the Argentine provinces, the strengthening of the micro-finance sector and the development of Public Private Partnerships and Private Finance Initiatives. Projects to strengthen key institutions include a project to promote transparent and accountable practices among the judiciary, and training by the National Audit Office for its Argentine counterpart in conducting performance (value for money) audits. The Embassy also uses its wider portfolio of co-operation funding to support strengthening institutions and the rule of law.

21. The British Argentine Chamber of Commerce informed us that UKTI financial support for outward missions to Argentina had been withdrawn in 2005 after changes in government support for export promotion. We believe that this decision should be reconsidered in the light of Argentina’s future potential. The BACC also say that they would “welcome the opportunity of working closer with UKTI and having better communication in order to help British companies understand and identify opportunities in Argentina”. We support this suggestion. (Paragraph 157)

UKTI’s Horizontal Outward Missions Scheme was closed in 2005 following the Spending Review in 2004 and a subsequent rationalisation of its trade services. It was replaced by the Market Visit Support programme. This enables eligible companies to visit overseas markets either individually or as part of an organised group. It is operated at a regional and local level and provides financial assistance and support to SMEs wishing to visit overseas markets as part of their trade development process. Eligible companies are SMEs who are new to exporting or who are new to the emerging markets as set out in UKTI’s strategy. Market Visit Support is available for companies wishing to visit Argentina, as with all other markets where UKTI has a presence.

UKTI would be very happy to continue working with the British Argentine Chamber of Commerce and would welcome discussions with them about proposals they may have for future collaboration.

22. The Argentine Government’s so-called price “agreements” with businesses—tantamount to price controls—were the subject of widespread complaint during our visit. Unconventional means appear to have been used to enforce these controls, for

example UKTI told us that President Kirchner “encouraged a blockade against Shell in February 2005 after the company decided to raise petrol prices.” We were surprised to hear that the Trade Minister was not aware of the problems relating to price controls in Argentina, as in their evidence to us UKTI had cited Argentine government intervention, including price control, as an example of an internal barrier to trade faced by UK companies. These price controls risk deterring UK investment in Argentina. (Paragraph 152)

The Argentine Government’s use of these measures is not directed at UK or foreign companies per se, but is part of a raft of measures designed to control domestic inflation. They are focused on specific sectors, for example, power and energy and basic foodstuffs.

The extent to which voluntary price agreements between private sector companies (of whatever nationality) and the Argentine Government works is now open to question. It has certainly affected Argentina’s image with the investment community. However, UK companies, many of whom are long established in Argentina, continue to invest.

Uruguay

23. We are concerned that the UKTI service for Uruguay will share the fate of that for Paraguay, which no longer has a UKTI presence and for which very limited information was available for this inquiry. This move seems perverse, given the strong historic ties of friendship between the UK and Uruguay, the country’s benign business environment, that UK companies are choosing to invest in Uruguay as a base from which to access other South American countries, the high level of inquiries received relating to Uruguay and that the institutions of Mercosur are based in Montevideo. We are unconvinced that it will prove possible to provide sufficient quality of cover from other neighbouring posts and we therefore urge UKTI to reverse its decision to remove its commercial presence from Uruguay. (Paragraph 165)

Following the 2006 Budget Statement, UKTI launched its new strategy which required it to move resource to emerging markets such as Brazil. This had to be funded fully by reductions in UKTI resource in other parts of the network which in some cases has led to posts, such as Uruguay, being allocated “Political Support Only” status. These markets do not have an in-market UKTI resource.

In order for this decision to be reversed, commercial positions would have to be cut from elsewhere in UKTI’s network or resources which are currently going to the emerging markets would have to be diverted. UKTI is committed to delivering its strategy. In order to do this, resources have been redeployed so that they are: where UK businesses want them to be; where they can be deployed to maximum effect to benefit UK businesses; and where they can contribute most effectively to the achievement of UKTI’s new corporate objectives. This has inevitably involved some difficult decisions. However, UKTI still believes that the decisions it has taken on resources under its 5-year strategy are the right ones to deliver its corporate objectives and make the most difference in support of UK business.

The decision to close the commercial section in Uruguay was based on a number of factors and was taken in the light of issues relating to other markets which were under consideration at the same time. The figures which were considered at the time showed that during the 2005/06 financial year the post in Montevideo received 56 British business visitors (approximately one per week) and 252 commercial enquiries (approximately five per week). Other figures for business activity initiated via the UKTI system were low across the board which led to the conclusion that there was not a large amount of British business interest in the Uruguayan market. The figures supplied to the Committee by UKTI which appear in Figure 11 of the report are slightly misleading when taken out of context as they do not show the full picture of activity across a range of areas in each market. The management information which is collected and analysed by the market desks in UKTI in London covers over 30 categories of which “other substantive commercial enquiries” is just one.

The situation in Uruguay following the closure of the commercial section in March 2008 will be different from the current situation in Paraguay. Our Embassy in Paraguay was closed as part of the 2004 Spending Review and political support is provided by our Ambassador in Buenos Aires. There are no similar plans to close the Embassy in Uruguay, a country with which – as the Committee noted – the UK enjoys strong historic ties of friendship. The Embassy will remain open and any political support or lobbying which UK companies require in the market will be provided by our Ambassador there, not from a neighbouring post.

Paraguay

24. Although we accept that limits on its resources mean that UKTI must make choices between markets globally, we believe that while Paraguay may not merit a full service there should at a bare minimum be basic market and sectoral information available through the UKTI website, particularly when information is available on the website of one of its parent departments. (Paragraph 166)

For markets which UKTI categorises as “Political Support Only”, such as Paraguay, a limited advisory service is provided via its website. These pages signpost visitors to other sources of information, such as the FCO’s country pages, and explain whom to contact for political support and lobbying within the market. Staff at the overseas Posts which cover these markets also signpost enquirers to alternative sources of commercial and economic information and advice such as websites and local Chambers of Commerce where applicable. (In the case of Paraguay, this function is performed by the British Embassy in Buenos Aires.)

Regional free trade agreements v. the Doha Round

25. Mercosur is widely thought to be modelled on the European Union, yet although some see it as an embryonic ‘EU in South America’ its level of integration falls some way short of that of the EU. Even within the Mercosur countries themselves, we noted that there was a considerable degree of scepticism about the future of the organisation. Mercosur faces significant challenges as its development has been hindered by national interests, internal asymmetries, and disputes between members which have even been taken to the WTO. The Argentine and Brazilian economic

crises, subsequent devaluations and trade disputes have been politically problematic for Mercosur. (Paragraph 178)

26. We are broadly supportive of an EU-Mercosur agreement, which should be consistent with trade rules and beneficial to both parties, and which unlike the Doha Round offers an opportunity to address the many non-tariff barriers to trade and to liberalise services further, both of which are important for UK businesses. We note the proposals within the new European Commission trade strategy to pursue trade agreements with a number of partners, including some that we have previously carried out inquiries on: India and ASEAN. It is important that the existing and proposed EU negotiations should not in any way detract from Doha, but seek to build on a successful multilateral outcome which should include strengthening the WTO rules on preferential regional trade agreements. (Paragraph 202)

27. However, there remains considerable uncertainty regarding the fate of the Doha Round. Ultimately, should the opportunity of Doha be lost, our major trading partners are likely to pursue regional and bilateral preferential trade agreements with renewed vigour, which would encourage the EU to accelerate its regional and bilateral initiatives. If Doha fails, then completion of the EU-Mercosur talks, and bilateral initiatives such as the JETCOs set up between the UK and Brazil, India and China are likely to take on even greater significance. As the Trade Minister noted: “The service sector is one of the areas where I believe we can make major gains for the UK, but the problem that remains is the removal of barriers, whether or not we have Doha.” (Paragraph 203)

The Government notes the points made by the Committee. A successful outcome to the Doha Round remains the paramount trade policy objective. Failure to conclude the WTO’s trade round would be a serious blow to the global community’s ability to face up to the global challenges of today and tomorrow. Failure would also represent a missed opportunity to prevent a drift into greater protectionism which it could be difficult to reverse.

Bilateral agreements can never effectively substitute for multilateral ones. The Government agrees, however, that there are areas which the Doha Round does not cover or which can be taken further in bilateral negotiations. But an ambitious, pro-development outcome to the Doha Round would provide a much stronger platform on which to develop further bilateral action. The Government will continue to do all it can to ensure that this is achieved.