The Adrienne Arsht Latin America Center broadens understanding of regional transformations through high-impact work that shapes the conversation among policymakers, the business community, and civil society. The Center focuses on Latin America’s strategic role in a global context with a priority on pressing political, economic, and social issues that will define the trajectory of the region now and in the years ahead. Select lines of programming include: Venezuela’s crisis; Mexico-US and global ties; China in Latin America; Colombia’s future; a changing Brazil; Central America’s trajectory; combating disinformation; shifting trade patterns; and leveraging energy resources. Jason Marczak serves as Center Director.

For more information, please visit www.AtlanticCouncil.org.

This report is written and published in accordance with the Atlantic Council Policy on Intellectual Independence. The authors are solely responsible for its analysis and recommendations. The Atlantic Council and its donors do not determine, nor do they necessarily endorse or advocate for, any of this report’s conclusions. The views and opinions expressed in this report are those of the authors and do not necessarily reflect the official policy or position of Apex-Brasil or any agency/entity of the Brazilian government.

© 2020 The Atlantic Council of the United States. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Atlantic Council, except in the case of brief quotations in news articles, critical articles, or reviews. Please direct inquiries to:

Atlantic Council
1030 15th Street NW, 12th Floor
Washington, DC 20005


March 2020

Cover: Sergio Souza/Unsplash.
Guarujá, SP, Brazil.
US-BRAZIL TRADE AND FDI:
Enhancing the Bilateral Economic Relationship

By Abrão Neto, Ken Hyatt, Daniel Godinho, and Lisa Schineller
With Roberta Braga
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>2</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>3</td>
</tr>
<tr>
<td>A NEW CHAPTER FOR US-BRAZIL RELATIONS</td>
<td>5</td>
</tr>
<tr>
<td>DEEPENING US-BRAZIL TRADE AND INVESTMENT</td>
<td>7</td>
</tr>
<tr>
<td>Building toward a Comprehensive Free Trade Agreement</td>
<td>7</td>
</tr>
<tr>
<td>Institutional Hurdles and Potential Opportunities</td>
<td>8</td>
</tr>
<tr>
<td>The US Perspective</td>
<td>9</td>
</tr>
<tr>
<td>The Brazil Perspective</td>
<td>13</td>
</tr>
<tr>
<td>WORKING TOWARD GREATER FOREIGN DIRECT INVESTMENT</td>
<td>18</td>
</tr>
<tr>
<td>Domestic Reforms Paving the Way for Greater Investment</td>
<td>19</td>
</tr>
<tr>
<td>Bilateral Pathways for Deepening Investment</td>
<td>22</td>
</tr>
<tr>
<td>KEY RECOMMENDATIONS</td>
<td>26</td>
</tr>
<tr>
<td>Short Term - 2020</td>
<td>26</td>
</tr>
<tr>
<td>Medium to Long Term - 2021 and Beyond</td>
<td>29</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>30</td>
</tr>
<tr>
<td>ACKNOWLEDGMENTS</td>
<td>31</td>
</tr>
<tr>
<td>ABOUT THE AUTHORS</td>
<td>32</td>
</tr>
<tr>
<td>ENDNOTES</td>
<td>34</td>
</tr>
</tbody>
</table>
The year 2020 marks the turning of a page for the Western Hemisphere, a region that in 2019 saw uncertainty dominate headlines as new governments came in and out of office, trade tensions grew, and citizens took to the streets to voice their concerns with the status quo.

For years, the opportunities that could come with a stronger bilateral relationship between the United States and Brazil have been underestimated. Significant potential exists to produce sizeable benefits for both societies. That potential must be maximized.

While US and Brazilian governments and businesses have begun to seize the benefits of the synergies the two countries share, hurdles remain that prevent a full and successful commercial reality.

The United States and Brazil would benefit from a closer and stronger trade and foreign-direct-investment-relationship that would amplify growth and prosperity, in both the short and long terms. Deepening the economic relationship would pay dividends in other areas as well, translating into greater opportunities for strategic bilateral cooperation. This paper recognizes that the moment is now and that 2020 is a pivotal year to substantively advance bilateral economic ties.

Building upon the successes and progress made over the years, this paper incorporates the input and expertise of the US and Brazilian private sectors and policymakers to offer a renewed vision and new momentum for strengthening US-Brazil trade and foreign direct investment (FDI), supporting concrete steps toward deepening the commercial relationship, and laying the foundation for a potential free trade agreement (FTA) between the United States and Brazil.

As the global balance of power shifts, as the world faces new hurdles that could slow growth, and as Latin America must contend with more uncertainty amid new external shocks, the two countries strategically and economically have countless reasons to deepen commercial relations. Stronger ties will ultimately provide additional certainty at this critical time.

Jason Marczak
Director, Adrienne Arsht
Latin America Center
Atlantic Council
can the global horizon today and one can’t help but note the trends that are fundamentally reshaping the world order. New global players are taking center stage, as countries reconsider their approaches to collaboration and cooperation. Changes in technology are evolving at unprecedented speeds—changes that have brought forward a fourth industrial revolution that has generated new questions about how best to solve global challenges not confined by borders. These transformative trends are affecting the world, and the marketplace. But, change also brings immense opportunity.

In this environment, the United States and Brazil are uniquely positioned to advance momentum for a more robust bilateral economic relationship. As the United States and Brazil look at delivering on such a goal, the Atlantic Council’s Adrienne Arsht Latin America Center, alongside intellectual partners in both countries, lays out the benefits that a closer economic relationship may offer. The goal: provide new ideas and reinforce momentum for deepening the bilateral relationship at a time of great synergy between the countries’ leadership.

This paper, authored by two US and two Brazilian experts, showcases the scope for the United States and Brazil of deepening trade and FDI ties. In particular, it highlights the institutional hurdles and opportunities for lowering trade barriers and enhancing convergence in the near term, while articulating the benefits of a comprehensive free trade agreement in the long term, as well as what the two countries can do to achieve even stronger investment ties. To highlight the potential benefits of a stronger US-Brazil partnership and increased investment in different sectors of the economy, this paper, from a bilateral and non-partisan perspective, proposes short-term and long-term approaches to seizing on opportunities for greater engagement. It also highlights, through call-out boxes, the authors’ perspectives on key themes and opportunities for particular industries.

Throughout 2020, the United States and Brazil have the chance to focus on key, practical, short-term wins that could pave the way for next steps toward a comprehensive long-term free trade agreement.

In the areas of trade, recommendations include a multi-chapter trade enhancement agreement that could encompass bilateral rules on customs administration and trade facilitation, good regulatory practices, technical barriers to trade, and digital trade, among other areas. Working closely with the private sectors of the two countries, the United States and Brazil should continue to identify specific bottlenecks to reduce trade uncertainty, and work to finalize a mutual recognition agreement between national trusted traders or Authorized Economic Operator (AEO) programs. Key to short-term success will be expanding digital documentation in bilateral trade and expanding upon sharing good regulatory practices, including conducting impact analyses and public consultations, and implementing a whole-of-government approach.

The two countries should work to move beyond the pilot program to establish a full-fledged Global Entry Program for pre-approved Brazilian travelers entering the United States, start negotiations to avoid double taxation, and consider the implementation of a high-level mechanism at the vice presidential level to oversee the bilateral relationship (in coordination with existing dialogues and groups). The United States and Brazil can also increase policy cooperation in third countries and international fora in areas of investment and trade policy coherence.

The United States should continue to support Brazil’s process of accession to the Organisation for Economic Co-operation and Development (OECD), which would energize and consolidate important economic domestic reforms in Brazil.

Beyond 2020, and using momentum of short-term progress, the United States and Brazil should work toward launching and concluding negotiations for a comprehensive free trade agreement (FTA) and bilateral investment treaty (BIT).

An open, transparent, inclusive, and international rules-based bilateral trading system is key to sustainable growth and prosperity for the United States and Brazil. By articulating the spillover effects of stronger ties from a bilateral approach, this paper provides a new perspective on the benefits of closer trade and investment linkages between the two countries. The moment to catapult the joint relationship to the next level is now.
An Alcântara Launch Center official in Alcântara, Maranhão, Brazil, September 14, 2018. Brazil and the United States signed a technology safeguards agreement on March 18, 2019, during President Jair Bolsonaro's first visit to the United States.
A New Chapter for US-Brazil Relations

As the two largest economies in the Western Hemisphere, the United States and Brazil have a long and prosperous relationship, one dating back to 1824, when the United States became one of the first countries to recognize Brazil’s independence.¹

More recently, and over the course of decades, Brazil and the United States have taken steps to foster deeper engagement within sectors of strategic mutual importance. These have included the aerospace, energy, tourism, defense and security, healthcare, infrastructure, and automotive industries, among many others.

The partnership is one characterized by a shared vision of growth and prosperity, while each country’s viewpoint regarding the role of the public and private sectors in leading growth has varied. Recent numbers give a glimpse of the mutual benefits behind the bilateral relationship. In 2018, two-way trade in goods and services amounted to more than $100 billion, which is also likely to be the case in 2019.*

For Brazil, the United States is a crucial economic and commercial partner. As of 2019, the United States ranked as Brazil’s second-largest trading partner—having only recently been overtaken by China—when considering goods and services together. The United States is the most important destination for Brazilian exports in services and in manufactured products. In terms of FDI, while flows from China have accelerated in recent years (especially in the energy and infrastructure industries), the United States remains the largest investor of FDI in Brazil—five times greater than China, reflecting the breadth and depth of the longstanding relationship between the United States and Brazil.²

The United States also benefits from its relationship with Brazil. As Latin America’s largest democracy and economy, Brazil ranks fourteenth as a US trading partner, and it is the United States’ number-two destination for goods in the region. According to the US Trade Representative (USTR), in 2018, the United States had an overall trade surplus of $30.6 billion for goods and services, including an $8.5 billion trade surplus for goods alone.³ Brazil’s main imports from the United States are aircraft, machinery, petroleum products, electronics, and optical and medical instruments.

One can look at the number of student exchanges between the United States and Brazil as another example of the importance of the bilateral relationship—Brazil is the ninth-leading country sending students to the United States.⁴ Between 2017 and 2018, per US Immigration and Customs’ SEVIS (Student and Exchange Visitor Information System) by the Numbers Report, the number of Brazilian students studying in the United States increased by 13.1 percent.⁵ From 2018 to 2019, that number increased by 9.8 percent, the second-largest percentage increase in international students from any country worldwide in that timespan.⁶

There is no denying that the United States and Brazil are key partners and allies. But the two largest economies in the Americas have yet to remove the barriers necessary to maximize the full potential of actual and possible trade and investment ties.

The positive state of bilateral relations offers a unique opportunity to build momentum to deepen economic ties in this longstanding and enduring partnership. The key reforms being advanced in Brazil to strengthen the economy, and the role of the private sector in it, make this an opportune moment to advance and achieve key short-term outcomes that would position both countries to deepen and expand trade and investment in the longer term.

Over the past year, the administrations of US President Donald Trump and Brazilian President Jair Bolsonaro have made commitments to further bring the two economies closer together in increasing prosperity, enhancing security, and promoting democracy and national sovereignty.

In his first bilateral visit abroad after assuming office, President Bolsonaro met in Washington, DC, with President Trump in March 2019, joined by seven of his twenty-two ministers, including Economy Minister Paulo Guedes, Justice Minister Sérgio Moro, and Foreign Affairs Minister Ernesto Araújo. The visit

*From a statistics standpoint, imports reported by one country do not necessarily coincide with exports reported by its trading counterpart. Various factors, including valuation and timing, explain such differences. Discrepancies may also occur in FDI data generated by each country. The Central Bank of Brazil and the Bureau of Economic Analysis may be using different methodologies for measuring FDI.
defined an agenda that prioritized expanding cooperation in trade and FDI, defense and security, and innovation.

On more than one occasion, leaders of both countries have expressed their willingness to negotiate a trade agreement—notwithstanding the complicated and ongoing challenges that have held back such negotiations in the past. The two presidents have thus far made several specific trade-related commitments. They agreed to build a Prosperity Partnership to increase jobs and reduce barriers to trade and investment, putting emphasis on exploring new initiatives to facilitate trade, investment, and good regulatory practices. They also pressed for the conclusion of a mutual recognition agreement regarding their trusted trader or AEO programs.

To show their mutual intent to tackle some long-standing bilateral trade disputes, President Bolsonaro announced the intention to expand US access to the Brazilian wheat and pork markets, while President Trump indicated the United States would take steps to resume Brazil's beef exports. Brazil has also implemented the commitment to extend the annual duty-free tariff rate quota (TRQ) of 750,000 metric tons (MT) of wheat imports.

As written in the joint statement between the two countries, President Trump offered his support for Brazil's accession to the OECD—a process that started in 2017 with Brazil formally expressing its interest in joining the organization—and President Bolsonaro announced that Brazil will begin to forgo special and differential treatment in World Trade Organization (WTO) negotiations.

Brazil affirmed it would waive the tourist visa requirement for US citizens to enter the country, which became effective in June 2019, and both presidents agreed they would work to enable Brazil to participate in the US Global Entry Program. They also decided to resume the activities of the Brazil-US CEO Forum.

On the defense-and-security front, both countries signed a Technology Safeguards Agreement that enables US spacecraft to be launched from Brazil's Alcântara Launch Center. The agreement was approved by Brazil's Congress in November 2019 and launches are expected to begin in 2021. This agreement is part of a broader effort to continue expanding bilateral cooperation beyond trade. The United States also designated Brazil as a “major non-NATO ally,” facilitating Brazil's ability to purchase US weapons and defense equipment.

The Brazil-US CEO Forum, which met in Washington, DC in November 2019 after a four-year lapse, also laid the groundwork for deeper collaboration. The chief executive officers’ (CEOs’) joint recommendations included “proposals to increase bilateral trade, infrastructure cooperation, collaboration in the technology sector, and improvements in health, education, and workforce development.” They recommended “several measures to advance discussions toward the long-term goal of a free trade agreement, focusing on issues such as Brazil's entry into the OECD, tax reforms, trade facilitation and a Double Taxation Agreement (DTA).”

Brazil’s own economic-reform agenda is also helping to lay the groundwork for a deepening of the relationship. The Brazilian Pension Reform, passed in the fourth quarter of 2019, bolsters Brazilian public finances, particularly in the longer term, by easing pressure on the budget over the coming years. More importantly, it is the first of various planned reforms to Brazil's fiscal challenges—a much-needed tax reform is one of the next long-awaited reforms on the horizon.

As the United States and Brazil look at further delivering on a stronger bilateral agenda, this publication sheds light on the possibilities to advance short-to-long-term commercial opportunities in goods-and-services trade through a multi-chapter trade enhancement agreement, coordinated efforts to ensure Brazil's accession to the OECD, the conclusion of a mutual recognition agreement between national trusted traders, continuing to enhance good regulatory practices and sector-specific regulatory cooperation, enhancing commercial policy cooperation in third countries, the implementation of a full-fledged Global Entry Program, and eventually, the conclusion of a US-Brazil Free Trade Agreement, a Double Taxation Agreement, and a Bilateral Investment Agreement.
Deepening US-Brazil Trade and Investment

BUILDING TOWARD A COMPREHENSIVE FREE TRADE AGREEMENT

Brazil and the United States have long made strides toward the potential negotiation of an FTA. This would be the most ambitious and wide-ranging economic and trade measure toward which both countries could aim. Estimates predict that a US-Brazil FTA would have a net positive impact not only on both countries’ gross domestic product (GDP) and national income, but also on exports, imports, wages, and employment. An FTA would also create a long-standing legal framework that would further integrate both economies, and would shape the trade and investment patterns between them in the future.

However potentially positive an FTA may be, it is a long-term goal. The production of mutually beneficial results will demand time, resources, and political capital. There are several stages in the process of negotiating an FTA. In the US case, there is the need to notify Congress prior to the start of trade talks. Special pre-initiation assessments and congressional consultations are required, including an assessment of existing tariff disparities on agricultural products and an assessment by the International Trade Commission of import-sensitive agricultural products.

Brazilian President Jair Bolsonaro and US President Donald Trump shake hands during a bilateral meeting at the G20 leaders summit in Osaka, Japan, June 28, 2019. The two leaders have expressed their interest in deepening the bilateral economic relationship.
On the Brazilian side, it is necessary to decide whether the agreement would be a joint enterprise alongside the Southern Common Market (Mercosur), or whether it would be a bilateral undertaking—which would entail changes to the current legal structure of Mercosur.

Once talks formally start, multiple rounds and strenuous hours of negotiations are needed to reach agreements on a vast array of technical issues, involving numerous negotiating teams, private-sector consultations, and political instructions. If a deal is reached, the United States and Brazil would run the “last mile” of legal revisions, signing, congressional approvals, and, finally, ratification.

In a nutshell, the road to an FTA is a long one. As such, various steps can be taken to ripen the path to an eventual agreement.

**INSTITUTIONAL HURDLES AND POTENTIAL OPPORTUNITIES**

As a member of Mercosur, Brazil is bound by its rules to negotiate tariff agreements as part of the trading bloc. Until recently, the administration of President Bolsonaro had firmly maintained its commitment to pursuing FTAs together with Mercosur, especially after successfully concluding negotiations in 2019 with the European Union and the European Free Trade Area (EFTA)—blocs that represent a combined gross domestic product (GDP) of $20 trillion.

But, the change in administration in Argentina, with Alberto Fernández assuming the presidency in December 2019, may impact next steps. Despite Brazil and Argentina’s long relationship as partners and allies, the two administrations may not see eye to eye on all issues of global integration. Such a position could eventually lead to new Mercosur legislation granting members full autonomy to negotiate treaties. It could also lead to a downgrade in Mercosur’s status from an “incomplete common market” to a “free trade area”—which would allow its members to unilaterally change their import tariffs. On the other hand, a pragmatic approach by the Argentine administration would open the door for continued cooperation through the existing Mercosur mechanism.

Any changes to the Mercosur normative framework require consensus from all Mercosur members, including Argentina. This is also valid for somewhat simpler modifications, as is the case of Decision CMC 32/00, which states that tariff preferences given to third parties must be jointly negotiated. A return to a free trade area involves even more complex and time-consuming legal and political arrangements.

Conversely, a withdrawal from Mercosur would be a last resort, with significant consequences. A withdrawal would impact Mercosur’s ongoing trade negotiations with third parties, as well as the recently concluded European Union-Mercosur trade agreement (as the agreement has not yet been signed and the European Union mandate was to negotiate with Mercosur as a bloc, and not with individual countries). It would also lead to time-consuming discussions regarding what tariffs would be in place in trade between Brazil and the other Mercosur countries.

All alternatives seem to come with a substantial cost to the political balance in the region, and would demand considerable time and energy.

Against this backdrop, from Brazil’s perspective, the case for an FTA negotiation with the United States is an incredible opportunity but not a simple task: FTA negotiations would have to take place within and alongside Mercosur (which demands Argentina’s new government be onboard and the United States be keen to negotiate with the four Mercosur countries as a trading bloc), or Brazil would come up against the need to adjust Mercosur’s rules to allow a bilateral negotiation.

Nevertheless, 2020 provides an opening to glance at alternative opportunities that could pave the way for an eventual FTA.
THE US PERSPECTIVE

During President Bolsonaro’s visit to Washington in March 2019, Presidents Trump and Bolsonaro committed to “enhancing the work of the United States-Brazil Commission on Economic and Trade Relations, created under the Agreement on Trade and Economic Cooperation (ATEC) to explore new initiatives to facilitate trade investment and good regulatory practices.”

In a historic move, President Trump also welcomed Brazil’s ongoing efforts to institute much-needed domestic economic reforms, as well as a regulatory framework in line with the standards of the OECD.

From the US perspective, the moment is ripe for both countries to engage in productive conversations that will yield positive outcomes for both parties and the private sector. The personal relationship between both presidents and their directives to reevaluate their respective countries’ trade relations presents a unique opportunity for dialogue and concrete results.

While an FTA should continue to be the goal toward which the United States and Brazil strive, given administrative and legislative priorities, results in the short term are key to laying the groundwork for an eventual agreement.
agreement. The building blocks for a potential FTA between Brazil and the United States will be the short-term opportunities, which—if successfully implemented over the current year—can pave the way for a potential FTA and for the various long-term recommendations laid out in this paper.

A Focus on Goods

Though the United States and Brazil have made progress on trade and investment over the years, Brazil remains one of the countries with the highest tariff barriers. As the United States and Brazil work to deepen trade of goods, the United States will look to seize on opportunities to increase regulatory cooperation, identify and eliminate technical barriers, and identify new openings for harmonizing standards and assessment procedures.

Brazil’s Most Favored Nation (MFN) applied tariff averaged 10.2 percent for agricultural products and 13.9 percent for non-agricultural products in 2017. Brazil’s WTO maximum bound-tariff rates are 55 percent for agricultural products and 35 percent for non-agricultural products.

US exporters face significant uncertainty as result of frequent increases and decreases in tariffs. According to the World Bank, Brazil’s average (trade-weighted) tariff rate was 8.3 percent in 2015, the highest rate among emerging and advanced economies.

According to the USTR, Brazil imposes relatively high tariffs on a variety of sectors, including automobiles, automotive parts, chemicals, plastics, information and communications technologies (ICT), industrial machinery, steel, textiles, and apparel. Beyond tariffs, US industrial goods are subject to non-tariff barriers to trade. These barriers include import licensing, product standards, conformity assessment procedures, and technical regulations. As an example, the United States and Brazil take different approaches to the recognition of international standards. Conformity-assessment procedures for toys and medical devices are examples of areas for discussion and improvement.

The complexity of meeting unique country requirements is particularly burdensome on small and medium-sized enterprises (SMEs). Such non-tariff measures create additional costs and loss of time for businesses and consumers. According to estimates using data from the United Nations Conference on Trade and Development Trade Analysis Information System (UNCTAD TRAINS) and UN Comtrade data, the ad-valorem equivalent of non-tariff measures is almost 12 percent. Although some of these non-tariff measures serve legitimate health-and-safety policy objectives, a higher percentage of products are subject to such measures in Brazil than world averages. The percentage of imports subject to sanitary and phytosanitary measures and technical barriers, for example, is 66 percent and 89 percent, respectively, as compared to 26 percent and 61 percent, respectively, per the World Bank.

The Patent Prosecution Highway and Opportunities for the Pharmaceutical Industry

On December 1, 2019, Brazil launched a uniform Patent Prosecution Highway (PPH) shared-examination pilot project (which the United States has now joined) that replaces existing bilateral agreements. The new, standardized PPH aims to address issues with the patent backlog—something pharmaceutical companies have highlighted as a hindrance to deeper commercial relations between the United States and Brazil—by allowing for expedited examination of patents in all areas of technology. The new agreement significantly expands upon the previous commitments, allowing for applications in all technological fields and higher annual caps for those applications.

In addition to unifying and standardizing processes, the resolution removes the requirement that Brazil’s National Institute of Industrial Property (INPI) publish a resolution for each cooperation agreement signed.

In addition to the PPH, to fight the patent backlog, the INPI has also adopted a plan to reduce the patent pendency by at least 80 percent in the course of the next two years, and to issue patent final office actions in less than two years from the examination request (on average). The effort has produced successful results so far—in the first six months of the initiative, patent pendency decreased by 18 percent.

As the United States and Brazil work to deepen trade of goods, the United States will look to seize on opportunities to increase regulatory cooperation, identify and eliminate technical barriers, and identify new openings for harmonizing standards and assessment procedures.
When it comes to trade, renewed focus should be placed on increasing regulatory cooperation between the United States and Brazil to identify and eliminate unnecessary technical barriers to trade. Such cooperation should include enhanced cooperation between regulatory bodies in Brazil and the United States to identify opportunities to harmonize standards and conformity-assessment procedures (e.g., recognizing conformity-assessment testing done in the other country) and also enhanced sharing of good regulatory practices, in particular in areas of regulatory impact analysis, public consultation and a whole-of-government approach. (e.g., the creation of an Office of Information and Regulatory Affairs (OIRA)-like entity in Brazil).

The issues laid out throughout this paper apply in unique ways to industries key to the prosperity and growth of the United States and Brazil. The oil and gas industry, in particular, is a promising sector. As in various other areas, in the energy sector, there is a window of opportunity in the next few years for advancing discussions and translating such conversations into concrete measures.

In 2019, following President Bolsonaro’s visit to Washington, DC, the United States and Brazil announced their intent to establish the US-Brazil Energy Forum (USBEF), a bilateral government-to-government energy cooperative framework.

Under the USBEF, the United States and Brazil committed to identifying technical, regulatory, and policy issues of mutual interest, and to developing actionable plans to “achieve concrete goals that address each issue in a mutually-beneficial manner.” According to the US Department of State, the forum represents a whole-of-government, public-private approach to collaboration.

Brazil has a diversified energy sector, but more capital is needed to further develop energy resources. Here, improving regulation is crucial to attaining the objective of attracting greater investment.

The current administration is seeking to reduce the role of the state in the economy and to promote greater competition. Brazil is seeking to become the largest producer of oil and gas by 2040 and to change the landscape of the energy market.

In natural gas, there is the need to build infrastructure and develop the gas market by enacting the right regulation and fostering the private sector’s investment. Transportation challenges remain, as most of the reserves are in the ocean and need to be transported to the shore. Although the development of pre-salt drilling in the south will help with transportation, the challenge of bringing energy to northeastern Brazil remains. As such, increased investment in, and the expansion of, infrastructure will be key to the development of the energy sector in Brazil, an area core to US investment.

The sector could also benefit from knowledge transfers from the United States, especially in the realm of improving regulation and fostering investment.

Finally, obtaining environmental licenses takes a considerable amount of time, in some cases as long as five years. Streamlining environmental licensing could help to address this bottleneck.
There are also opportunities to improve trade logistics and trade facilitation between the United States and Brazil. Brazil ratified the WTO Trade Facilitation Agreement in 2016 and continues to work toward implementation of the agreement.

US companies continue to express concerns regarding burdensome and inconsistent documentation requirements for imports of certain goods, (e.g., heavy equipment). While great progress has been made in certain sectors (e.g., medical devices), unpredictability and delays in customs clearance remain problematic in other sectors (e.g., pharmaceuticals).

Brazil has improved its trade-facilitation environment by implementing ATA Carnet, an international customs process permitting the duty-free and tax-free temporary export and import of goods for up to one year, per the International Chamber of Commerce.

The country has also done so by working toward a mutual recognition agreement with the United States for its Authorized Economic Operator program. The AEO is a partnership program that many customs administrations are pursuing to facilitate global trade by providing incentives to customs and traders that have decided to work in partnership to improve supply-chain security, per the World Customs Organization. The mutual agreement refers to two countries closing an agreement or arrangement to mutually recognize AEO authorizations.

**A Focus on Services**

Brazil has more restrictions on trade in services than the average country in Latin America, according to the World Bank Services Trade Restrictiveness Index (STRI), with the most restrictive scores in financial and professional services, essential for productivity growth and competitiveness.

US companies experience barriers to trade across a wide variety of services sectors. For example, services barriers in audiovisual services include: higher taxes on foreign film; requirements of percentages of programming by Brazilian on “open-broadcast” channels; express delivery (e.g., 60-percent duty on goods imported through Simplified Customs Clearance, lack of a de minimums exemption, partially funded automatic express-delivery clearance system, per-shipment value limits of $10,000 per exports, and $3,000 for imports); financial services (requirement that Brazilians be directly responsible for administration of a foreign bank subsidiary); and local content requirements (LCRs) in telecommunications.

### Relevant Gains for the United States

Given the size of Brazil’s economy and the successful implementations of US FTAs with other key countries in the region, it is clear that a US-Brazil FTA would bring tangible economic benefits to the United States.

First, an FTA would strengthen hemispheric commercial cooperation, enhancing the overall bilateral relationship between the United States and Brazil. As Brazil is by far South America’s largest economy, reducing barriers to trade would open this important market to US businesses. A 2016 study estimated an FTA would add $24 billion to US GDP and $30 billion to real national income, and expand employment by nearly one hundred thousand jobs. Employment growth was projected in every US state.

The removal of tariffs would reduce the cost of imports from the United States to the Brazilian consumer, and would make US exports more competitive with US competitors in Brazil (e.g., China, the European Union, and other Mercosur countries). An FTA could also increase the predictability of US-Brazilian trade for US exporters. Per a 2018 National Trade Estimate Report on Foreign Trade Barriers by the Office of the United States Trade Representative, given the large disparities between bound and applied rates, US exporters face uncertainty in the Brazilian market. The unpredictability makes it difficult for exporters to forecast the costs of doing business. An FTA that would include the elimination or reduction of tariffs and non-tariff barriers would remove this fluctuation.

An agreement on good regulatory practices would support the development of compatible regulatory approaches in the United States and Brazil, and reduce or eliminate unnecessarily burdensome, duplicative, or divergent requirements. An agreement on good regulatory practices would also better enable effective regulatory cooperation. It would increase transparency in the regulatory process, providing a clear rationale for new regulatory actions, as well as encouraging cooperation on minimizing divergence in regulatory outcomes.

Furthermore, an FTA could streamline import licensing for US companies, removing entry barriers for US firms. Opportunities to streamline import-licensing processes via a potential FTA would help US businesses enter Brazilian markets faster and more inexpensively.

Finally, the strengthening of the US-Brazilian economic relationship through an FTA would likely have positive ramifications for the broader US-Brazilian relationships outside of the economy.
In recent years, Brazil has been walking more resolutely down the path of greater global trade integration. Negotiations between Mercosur and the European Union have changed gears with the exchange of market offers in May 2016, and gained real traction in 2017. In 2017, Mercosur formally engaged in negotiations with EFTA, and in 2018 launched FTA trade talks with Canada, Singapore, and South Korea.

Argentina under then-President Mauricio Macri and Brazil under then-President Michel Temer and President Bolsonaro initiated a phase of greater political and technical convergence when it came to trade negotiations, which allowed Mercosur to advance on the aforementioned initiatives. The modernization of Mercosur itself also got under way with the adoption of an investment agreement (2017), a public procurement agreement (2018), and revised rules for common technical regulations (2018).

On the bilateral level, Brazil signed its first-ever public procurement agreement in 2016 (Peru), ratified its first investment agreements with several countries.

An agreement on good regulatory practices would support the development of compatible regulatory approaches in the United States and Brazil, and reduce or eliminate unnecessarily burdensome, duplicative, or divergent requirements. An agreement on good regulatory practices would also better enable effective regulatory cooperation.
in Latin America and Africa, and in 2018 signed a comprehensive FTA with Chile. The bilateral trade treaty with Chile, for the first time in Brazilian history, includes chapters on digital trade, trade and gender, trade facilitation, micro, small, and medium enterprises, the environment, and many others.

In 2017, Brazil formally expressed interest in becoming a member of the OECD, and became an observer to the WTO Government Procurement Agreement (GPA). At the multilateral level, Brazil has been one of the most active sponsors of discussions on investment facilitation and digital trade.

Under President Bolsonaro, the Brazilian transition toward a more ambitious trade policy gained extra momentum. The current Brazilian administration has defined trade integration as a top priority, having successfully concluded negotiations for the milestone trade deals with the European Union and EFTA (2019), and continued progress on formal talks with Canada, Singapore, and South Korea. The country has also begun dialogues with partners such as Japan, Lebanon, Indonesia, and Vietnam. Additionally, in 2020, Brazil expressed its intention to join, as a full member, the WTO GPA.

From the Brazilian perspective, the moment is ripe for laying the groundwork for an FTA discussion with the United States. It is seemingly a top priority for the Brazilian government, fitting perfectly into its current trade-negotiating directives. Taking into consideration the political convergence that exists between the heads of state from both countries, this is the ideal moment to begin paving the road to an FTA.

In his first year in office, President Bolsonaro tweeted at least five times his desire to initiate trade negotiations or address the relevance of stronger trade relations with the United States. As 2020 elections in the United States approach, exploring more gradual and agile approaches, such as a multi-chapter trade enhancement agreement could produce relevant results and, at the same time, constitute an incremental step toward a future FTA.

In general, the Brazilian private sector also appears to support the idea that an FTA would generate gains for both sides, being perceived as a win-win initiative. Leading business entities in Brazil—such as the American Chamber of Commerce for Brazil (Amcham Brasil), the National Confederation of Industries (CNI), and the Federation of Industries of the State of São Paulo (FIESP)—have publicly supported an FTA with the United States.
A Focus on Goods

The United States has a low average tariff rate, particularly for industrial goods. According to the USTR, the average trade-weighted import tariff rate for non-agricultural goods is currently 2 percent, and half of those products are imported into the US market duty free.\(^{28}\)

From an export perspective, one could say Brazil would not gain much when it comes to reducing tariff barriers on industrial products as a result of an FTA. However, this would be too narrow an analysis.

Several exceptions exist. Apparel and clothing accessories are one good example: average tariffs for knitted or crocheted clothing are 18.7 percent, and for non-knitted or crocheted items are 15.8 percent. Natural wool, yarn, and woven fabrics carry a 13.1-percent duty. Footwear is taxed at 11.8 percent. Import duties for jewelry, gemstones, and precious metals are 5.9 percent, and for furniture and bedding, 5.7 percent.\(^{29}\)

The United States is also utilizing measures under Section 232 of the Trade Expansion Act of 1962, based on national security arguments, which lead to unilateral increase in duties or to quantitative restrictions on exports from Brazil.

In 2018, the United States imposed an additional 10-percent duty for Brazilian exports of aluminum, and slapped hard quotas on Brazilian exports of steel, limiting volumes using the average of years 2015–2017 as a reference. Under this same mechanism, there is an investigation under way regarding automobiles and automobile parts, which could affect Brazilian exports.

Tariffs aside, Brazilian industrial goods are subject to technical requirements for being marketed in the United States, which usually entails compliance costs associated with product and process adjustments, testing, and conformity assessment. Intensification of sectorial initiatives of regulatory cooperation and negotiation of rules for avoiding unnecessary technical barriers to trade (TBT) may, therefore, have substantial positive impacts for driving down costs and time in bilateral trade.

Market access for Brazilian agricultural goods in the United States also faces considerable constraints in the form of tariffs and quantitative restrictions. Although they represent only approximately 5 percent of Brazilian exports to the United States (2018), there is considerable potential for their expansion.\(^{30}\)

The United States and Brazil are world leaders in producing and exporting agricultural products. They are fierce competitors in the global market, but may complement each other in certain areas, as is the case for ethanol, sugar, and meat. The two countries may also work together to access new international markets and develop common standards for agricultural goods.

Barriers to free trade in the agricultural sector are quite high in both countries. Trade restrictions exist
for Brazilian exports of sugar, cotton, soy complex, tobacco, orange juice, and dairy—all which face tariff quotas or high tariffs to enter the United States. In many cases, tariffs imposed outside the quotas are de facto prohibitive. In other instances, Brazilian exports are de jure forbidden from the US market, usually due to certification or sanitary and phytosanitary (SPS) restrictions, as is the case for fresh beef, poultry, avocado, persimmon, fig, and starfruit, among others.¹⁰

Negotiations on agricultural products tend to be highly sensitive, as they involve deep-rooted political arrangements and special interests. One should expect nothing different if the United States and Brazil decide to engage on these topics as a part of FTA talks, incorporating discussions on building bilateral SPS rules, revisiting SPS restrictions, and eliminating or reducing import-tariff barriers.

A Focus on Services

The United States is Brazil’s main destination for the export of services. In 2017, the United States represented more than 50 percent of Brazilian foreign sales of services, totaling nearly $16 billion, according to Brazil’s trade statistics. In 2018, exports to the United States dropped to $8.7 billion. The most relevant services exported included technical services, water transportation, app designing, and financial services, among others.

In 2018, the United States was second only to the Netherlands as the country of origin for Brazilian imports of services. The total amount of services purchased from the United States by Brazil was $12.5 billion. Relevant sectors included licensing for producing rights, leasing of machinery and equipment, advertisement services, and licensing for the use of computer software.

It is important to note that, both in export and import flows, US official statistics differ significantly from Brazilian ones. As a reference, 2018 US data indicate US services exports to Brazil totaled $28.2 billion (more than twice the Brazilian data), and US services imports from Brazil reached $6.1 billion.³³ As a consequence, the United States had a services trade surplus of an estimated $22 billion. Explanations to justify such substantial disparities and ensure common understanding regarding bilateral trade statistics must be further explored by both governments.

Irrespective of the differences in figures, the relevance of bilateral trade in services suggests that negotiating a services agreement between Brazil and the United States could generate substantial benefits for both countries. On the Brazilian side, sectors that would benefit from such an agreement could include financial services, legal and accounting services, managerial services, information-technology services, and marketing and recreational services, among others.³⁴

Relevant Gains for Brazil

A n FTA would not only generate potential benefits for exports deriving from the elimination or reduction of tariffs and non-tariff barriers, but also from the market creation and reduction of trade costs that may arise from agreeing on bilateral rules on trade facilitation, TBT, SPS, digital trade, and other areas.

Should the two countries conclude an FTA, one could expect an increase in Brazilian exports of machinery, apparel and clothing, footwear, steel products, granites and ornamental stones, wood flooring and furniture, aircrafts, auto parts, and transport equipment, to name a few examples. Obviously, agricultural goods mentioned in the previous section could also gain a greater share of the US market.

In addition to export gains, an FTA would bring gains in the areas of imports, investments, and overall improvements for the Brazilian economy. On the import side, an FTA would allow Brazil more competitive access to inputs (e.g., plastics and chemicals), capital goods, and technology and consumer products (e.g., pharmaceutical, automobiles, and food products).

An FTA could make production in Brazil—and, subsequently, exporting from Brazil to other countries in Latin America and the world—more competitive, corroborating the “import-to-export” motto and the global trend of higher import content in exports. Such competitiveness gains would be greater if accompanied by crucial domestic reforms to raise productivity and to reduce local production costs, by investment in infrastructure and by investment in workforce training. An FTA would also increase the general welfare of the Brazilian population, who would have cheaper access to consumer durable and non-durable goods.

Likewise, two-way flows of services would largely benefit from a trade agreement that enhances mutual market-access conditions and enables more predictability and legal certainty. For Brazil, considering the prominence of the United States as a destination for its exports of services, a more favorable environment created by an FTA would be a welcome development. An ambitious trade agreement could also work as a major driver of more US direct investment to Brazil (not only to cater to the domestic market, but also to gradually use the country as an exporting platform), and could encourage more Brazilian companies to expand or invest in the United States.

Finally, an FTA would generate income and jobs in Brazil. According to a done study by Amcham Brasil and Fundação Getulio Vargas, a free trade agreement would increase Brazil’s GDP by up to 1.3 percent (more than $38 billion) by 2030, generating additional exports of up to $25.7 billion and additional imports of up to $28.1 billion in that period.³⁵
Key Issues in Intellectual Property (IP) Discussions

The United States and Brazil have historically taken contrasting approaches to intellectual property (IP) issues. One example is the bilateral dispute that took place in the early 2000s around the WTO consistency of the Brazilian patent law, which allowed the Latin American government to grant compulsory licenses in special circumstances—waiving patent rights of foreign companies in return for cheaper local production or imports of generic drugs, especially deriving from the Brazilian AIDS program. Other examples of differences on issues of intellectual property can be found in the 2019 USTR Special 301 report, which once again placed Brazil on the watch list of countries the US identifies as not protecting and enforcing IP rights in an adequate or effective way. The USTR report on Brazil noted claims of lack of adequate or effective border IP enforcement; high levels of counterfeiting and piracy, including online piracy, use of unlicensed software, and illicit camcording; piracy through illicit streaming devices; and slow opposition proceedings regarding trademarks. The report also noted the absence of laws and regulations protecting against unfair commercial use, as well as unauthorized disclosure of data generated to obtain marketing approval for pharmaceutical products, and encouraged the enactment of legislation to increase deterrent penalties for IP crimes.

On the other hand, it is important to highlight the progress Brazil is making. In 2019, the country acceded to the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks of the World Intellectual Property Organization (WIPO), launched a universal PPH framework and, signed a new memorandum of understanding (MOU) on PPH between INPI and USPTO, which is valid for five years and for all areas of technology. Also noteworthy is the launching of a national plan to fight the patent backlog in Brazil, which streamlines patent exams and aims at reducing the backlog by 80 percent by 2021, with already-relevant results.

All of the issues listed in the Special 301 Report are likely to be part of discussions should Brazil and the United Stated engage in negotiations for a trade agreement. US interests in IP protection are substantially greater than those on the Brazilian side, which suggests negotiations on IP may be challenging.

An analysis of the United States-Mexico-Canada Agreement (USMCA) confirms the latest US position on IP. Among other things, the new IP chapter: requires a minimum copyright term of life of the author plus seventy years; requires that IP-enforcement procedures be made available for the digital environment; provides enhanced protection of trade secrets; provides procedural safeguards for recognition of new geographical indications (GIs), including strong standards for protection against issuances of GIs that would prevent US producers from using common names; and establishes stricter enforcement provisions, including ex officio authority for law-enforcement officials to stop suspected counterfeit or pirated goods at every phase of entering, exiting, and transiting through the territory of the party.
Working Toward Greater Foreign Direct Investment

The benefits and importance of strengthening bilateral foreign direct investment between Brazil and the United States—specifically in and for the areas of exports, technology, research development, and job creation—are clear, as outlined in the Brazilian Trade and Investment Promotion Agency (Apex-Brasil) Brazil Bilateral Investment Map Brazil/USA.¹⁰

But, while the US-Brazil or Brazil-US FDI relationship is one of mutual benefits, it remains uneven. In 2018, the stock of US direct investment abroad was $5.95 trillion, according to the US Bureau of Economic Analysis (BEA), Brazil accounted for $71 billion, or 1 percent, of this total.¹¹

Per one of the author’s calculations using BEA data, advanced economies accounted for the lion’s share of the stock of US FDI abroad (60 percent in Europe, 15 percent in Asia with the highest focus in Australia, Japan, and Singapore, and 7 percent in Canada, with China at a lower 1.9 percent). Latin America and other Western Hemisphere countries accounted for 16 percent of US investments, mostly concentrated in Caribbean financial centers, including Bermuda, rather than in the two largest economies in the region—with just 1.9 percent in Mexico (the same as China) and 1.1 percent in Brazil).

According to Brazilian Central Bank data, the stock of FDI in Brazil was $738 billion in 2018 (almost 70 percent of which is equity and the remainder debt-funded). According to the ultimate-investment country calculation method—which looks through the use of intermediary countries, often for tax purposes,
to the ultimate controlling investor—the United States is the largest investor in Brazil, accounting for $118 billion in equity-funded FDI. This accounts for 24 percent of total equity-funded (reinvested profits or flows rather than intercompany loans, or debt) FDI in Brazil. The United States also accounts for another $16 billion in debt-related FDI (according to the immediate investor metric). The majority of this significant US FDI in Brazil is in the manufacturing and financial services sectors.42

Brazil is a leading destination for US investment into Latin America, both in terms of FDI and portfolio investment. This is not only because Brazil is the largest economy in the region, but also because of the breadth of its debt and equity markets. Nevertheless, Brazil continues to be a small share of overall US investment. Here, there is room for closer investment ties between the United States and Brazil.

The moment is ripe to lay the groundwork for greater FDI. The US and Brazilian administrations share a similar philosophy of strengthening private-sector participation in the economy. The Bolsonaro administration has expanded the Investment Partnership Program (PPI) started under the Temer administration, with key roles for public-private partnerships (PPP) and concessions. The Brazilian government estimates this will apply to more than one hundred new projects totaling about 1.3 trillion Brazilian reais. Projects span highways, railroads, ports, airports, energy, oil and gas, and telecommunications. This offers an array of possibilities for US companies. Indeed, while the large global infrastructure players don’t tend to be US companies, opportunities for small to medium-sized companies could follow.

To generate a faster pace of growth led by investment and broad-based productivity gains, FDI from the United States could enhance Brazilian investment and growth prospects and vice versa. But to open doors for greater investments, be it over the next years or over the next decade, redressing aspects of hindrances to doing business will be key for companies.

Brazil’s domestic reforms to tax and foreign-exchange systems, and steps taken to reduce the cost of doing business in the country, will all pave the way for a more effective investment environment. From a bilateral perspective, starting conversations on an agreement to avoid double taxation and, in the longer term, negotiating a potential bilateral investment agreement would present the United States and Brazil with new and important opportunities for higher rates of FDI.

Brazil is a leading destination for US investment into Latin America, both in terms of FDI and portfolio investment. This is not only because Brazil is the largest economy in the region, but also because of the breadth of its debt and equity markets.

DOMESTIC REFORMS PAVING THE WAY FOR GREATER INVESTMENT

Brazil’s Tax Reform

To pave the way for more investments from US businesses and other countries, US investors will look to Brazil to advance reform of its tax system. At present, the complexity of Brazil’s tax system at times slows investment; federal, state, and local taxes that overlap contribute to competition across state lines, with a convoluted system of tax credits.

According to the World Bank’s Doing Business 2020 report, paying taxes took more than 1,500 hours per year in Brazil, as opposed to about one hundred and forty and two hundred and forty, respectively, in China and Mexico.43 Efforts to make the system simpler with a unified tax declaration system, the use of electronic invoices, and an electronic payment platform system for social security and payroll taxes have begun to simplify the process.

That said, from the US perspective, further reform would alleviate some of the difficulties of investing in Brazil. A broad tax reform is one such opportunity for cooperation and enhancement of economic ties between the two countries.

Brazil’s administration and Congress are discussing various versions of a tax reform, which could move Brazil closer to easing the cost of doing business in
the country by simplifying the tax system and reducing income tax rates. This is potentially a monumental step for a country that has long talked about the need for tax reform but lacked the political will to move it forward.

The likely tax reform may include simplification of federal taxes by merging three to five taxes (the Program of Social Integration or PIS, the Contribution for the Financing of Social Security or COFINS, the Brazilian Tax on Industrial Products (IPI), the Social Contribution on Net Income tax (CSLL), and the Tax on Financial Operations or (IOF)) into one federal value-added tax (VAT), which would ease the burden on long production chains, and reduction of the corporate income tax rate and introduction of a tax dividend.

The administration is weighing its ideal reform against revenue needs and political practicality. Multiple tax reform proposals have been laid out, and in February 2020, Davi Alcolumbre, president of Brazil’s Senate, announced that a Joint Tax Reform Committee comprising twenty deputies and twenty senators should be created.

Meanwhile, Brazil’s Congress is already discussing potentially more ambitious tax reform proposals that require a constitutional amendment. These entail simplification and merging of the state’s VATs (ICMS) with a federal VAT. This includes PEC 45, a tax on goods, which creates one VAT for all goods and services in Brazil.

The government and Rodrigo Maia, head of Brazil’s Chamber of Deputies, foresee that a tax reform will be approved in 2020. However, any potential reform still faces obstacles, including a lack of definition of priority points, competing bills in the Chamber and the Senate, and 2020 municipal elections that are likely to reduce the Brazilian legislature’s working time.

Meaningful progress on the complex tax and distortionary tax fronts, which would simplify Brazil’s tax system, would help foster a more productive investment climate in Brazil by reducing tax hurdles to investment and lowering the costs of paying taxes. The various proposals have the potential to ease litigation costs and free up valuable resources within firms for more productive and efficient investment. Such developments would make the investment climate in Brazil more attractive to US businesses. Additionally, the risk of tax increases is very low, as all the tax reform proposals presented so far seek to keep the tax burden unchanged.

Reforms to Increase Ease of Doing Business in Brazil

Administrative hurdles in Brazil, such as the costs of starting a business, dealing with construction permits, and registering property also affect US FDI (besides investment in general), particularly for smaller and medium-sized firms.

A high number of days, number of procedures, and monetary costs for starting a business, registering property, and getting construction permits are challenges to investment.

But Brazil made improvements in these areas in 2018 and 2019; the process for registering a new business became faster, the costs of digital certificates were lowered, and electronic property-registration systems improved with online payments and certificates.

That said, regulations still vary across Brazil’s twenty-seven states and more than five thousand municipalities. Previous Brazilian governments put in place a federal system for simplifying and unifying business registration requirements (REDESIM), motivated by streamlining efforts at local-government levels.

But, costs remain high. For US investors, the creation of a “one-stop” shop for opening a business, initiating electronic processes, and a less time-consuming process for obtaining environmental licenses and bidding on government contracts could greatly improve the investment environment. If a one-stop shop is created and the government is able to digitize the process, this would simplify the process of investing in Brazil.

In increasing the ease of doing business in Brazil, it is important to note that the country has made strides in addressing corruption, following recent investigations under operation Lava Jato. Though Brazil
is party to a variety of OECD anti-corruption measures—including the Recommendation of the Council for Development Co-operation Actors on Managing the Risk of Corruption, the Recommendation of the Council for Further Combating Bribery of Foreign Public Officials in International Business Transactions, the Recommendation of the Council on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions, among others—continued progress in the area of anti-corruption would likely contribute to greater investments from the United States into Brazil.

Brazil’s FX Legislation Reform

Modernizing Brazil’s foreign exchange (FX) legislation is a key element of the Central Bank’s BC# agenda under the current Brazilian administration. Fewer restrictions and complexities related to Brazil’s FX regulation could enhance Brazil’s participation in global supply chains and deeper integration in the global economy. This would be attractive to both US financial and non-financial firms.

Current Brazilian FX legislation dates back to the 1920s, and includes more than four hundred rules (some contradictory) contained in some forty-odd pieces of legislation. This reduces efficiency and increases legal uncertainty for foreign investment in and out of Brazil, in addition to trade flows and participation in global supply chains.

In October 2019, the government sent legislation (Bill 5387/2019) to Congress that would simplify, modernize, and increase legal certainty for the FX system and capital flows (both Brazilian flows abroad and foreign-capital inflows). The proposed legislation aims to reduce bureaucracy and align Brazil’s FX regulation with global best practices, consistent with OECD standards, including for money laundering, counterrorism, and data dissemination.

The legislation would cede authority and flexibility to the National Monetary Council and to the Central Bank to write and change infra-legal rules, which would, in turn, facilitate quicker adaptation to changing global financial markets while preserving commitment to sound risk practices.

The project supports incorporation of new business models such as fintechs, increased convertibility of the real, and more. It could simplify access and improve attractiveness for US and foreign investors in Brazil—for portfolio and foreign direct investment—including for long-term infrastructure projects and concessions.

Proposed legislation, for example, would likely eliminate the asymmetrical burden on clients, more commensurate with the risk profile of a business’s size and industry segment. This would lower costs for US businesses.
Another example of cumbersome FX rules for US companies is the fact that, per existing legislation, every single foreign investment must be registered with the Central Bank, regardless of the size of the transaction. This is generally a costly process for smaller firms in particular. In addition, foreign exchange for every individual trade (import or export) transaction must be documented with and for the relevant financial institution as having occurred, with often-costly fees. Reforms to FX legislation aim to shift to a risk-based approach for these transactions, permitting the financial institution/foreign exchange operator to decide what documentation or registration is needed according to their risk assessments and hence lower costs for firms.

The proposed legislation could also reduce asymmetries associated with international correspondent banking denominated in reais and trade-related finance with easier establishment of custody accounts denominated in reais in Brazil and abroad. The legislation could, over time, lead to development of the real as a fully convertible currency on global capital markets.

US financial—banks and fintech—and non-financial FDI would likely benefit from passage of this legislation and find investment in Brazil more attractive.

The US Tax Reform

In 2017, the Trump administration passed the Tax Cuts and Jobs Act (TCJA) legislation, one of the more robust changes to the country’s federal tax system since the mid-1980s. In terms of FDI, the US corporate tax reform affected effective tax rates for both domestic investments in the United States and international investments where investors or investees resided in the United States. Per the Tax Foundation, the TCJA reduced the federal corporate income tax rate from 35 percent to 21 percent—it dropped the country’s rate from nearly 40 percent to around 25 percent, putting the United States slightly above the OECD average of 24 percent.

Though the reforms had a generally positive effect, global FDI fell 19 percent in 2018 to an estimated $1.2 trillion, caused in part by US firms repatriating $300 billion in accumulated earnings to take advantage of the tax break.

According to Global Trade magazine, “changes to the US corporate tax regime also prompted a 78 percent increase at the end of 2017 in companies reinvesting overseas earnings in the United States.”

Nevertheless, the United States still leads in inbound FDI; foreign investors and businesses have historically designated the United States as one of the safest places in the world to invest.

Investors attribute this designation to several factors, including the size of the US consumer market, its established legal system, defined business regulations, the country’s labor force, its infrastructure, and overall economic stability.

Though the United States is among the simplest and least bureaucratic countries for setting up a business, uncertainties—particularly around immigration and trade—continue to deter investment.

BILATERAL PATHWAYS FOR DEEPLYING INVESTMENT

Brazil’s domestic reforms to tax, administrative, and foreign-exchange systems will no doubt improve the country’s investment environment. That said, in addition to the domestic reforms under way, to foster greater FDI, the United States and Brazil can work toward the achievement of two consequential bilateral agreements.

A Double Taxation Agreement

When it comes to attracting FDI, an agreement to avoid double taxation (DTA or tax treaty) is of paramount importance—a point that was reinforced by the US-Brazil CEO Forum recommendations outlined in November 2019, which reflected the priorities and perspectives of both countries’ private sectors.

Tax treaties enhance legal certainty on cross-border investment between countries, with clauses on legal enforcement, exchange of information, and dispute settlement. They also deal with a tangible element of investments, the establishment of rules on the distribution of income tax between residence and source countries, which have practical consequences for companies investing on both sides. In short, double taxation agreements reduce the aggregate tax burden on five crucial operations for cross-border business: profits, dividends, interests, royalties, and services.

According to CNI, and without further examining the exceptions, withholding taxes imposed to foreign persons are: 30 percent in the United States and 0 percent in Brazil on the payments of dividends; 30 percent in the United States and 15 percent in Brazil on interests; 30 percent in the United States and 15 percent in Brazil on royalties; 30 percent in the United States and 15 percent in Brazil on services. In all these operations, double taxation agreements lead to lower taxation for foreign investors.

Both Brazil and the United States have several agreements to avoid double taxation in force. However, they have some important differences. The
first bilateral negotiations date back to 1949, with no result achieved so far. An agreement was reached in the 1960s, but was later rejected by the US Congress. Currently, the gap between both models is shrinking, due to the fact the Brazil has changed some important clauses, such as the tax-sparing and matching credit.

Although Brazil’s tax-treaties structure is very similar to the OECD, the model diverges from OECD guidelines in some clauses, as opposed to the US practice. Against the recent background of the Brazilian decision and efforts to join the OECD, one can imagine an easier path to the negotiations. This is particularly important for transfer-pricing practices, a hot topic in past discussions. Brazil will have to modify its legislation and move in the direction of the OECD’s rules in order to join the organization. Efforts in this direction have already begun, and may prove decisive in any formal discussions with the United States.

One of the most controversial clauses that sets negotiation positions apart is the tax-sparing and matching credit. Stimulated by the OECD in the past but later rejected, the tax-sparing clause provides for relief from residence taxation on taxes that have not actually been paid, or have been “spared.” Its rationale is to avoid fiscal incentives aimed precisely at attracting foreign investments becoming ineffective. Its claimed goal is to keep space in developing countries for public policies created to attract investments, even in the face of double taxation agreements signed with developed countries. Without analyzing the disputable results of this type of provision, the fact is that Brazil used to include tax-sparing provisions in many of its agreements, whereas the United States does not adopt them in its treaties.

Nonetheless, recent developments show that this specific clause might no longer be a problem. Brazil signed agreements with Switzerland, Singapore, and the United Arab Emirates that do not contain tax-sparing provisions. Yet to be confirmed as a new policy orientation, this at least shows unprecedented flexibility from the Brazilian authorities on this matter. In addition, Brazil has reduced the level of taxation on interest and services, from 15 percent in most of the previous treaties to 10 percent in those last treaties.

A big opportunity remains in terms of services—their growing importance to value-added products and exports is undisputable.

Brazilian domestic legislation classifies most services as technical services, leading to the taxation of nearly all. In the opposite direction, the OECD model prescribes taxation of services only in the residence country, a practice that is followed by the United States.

In general, the United States only taxes services in the source country in the case of permanent establishment, which is basically understood as physical presence. Brazilian double taxation agreements adopt the concept of permanent establishment, but a narrow interpretation given by domestic legislation makes the

Tax treaties enhance legal certainty on cross-border investment between countries, with clauses on legal enforcement, exchange of information, and dispute settlement.
application of this rule uncommon. However, it seems there may be room for convergence here since some of the United States’ treaties bring flexible definitions for “permanent establishment,” as well as differential treatment for “technical services.”

Altogether, a bilateral treaty to avoid double taxation would allow Brazilian companies in the United States to have the same treatment as competitors from other countries that already have agreements with the United States, carrying a lower tax burden in their investments.

In addition to leveling the playing field for Brazilian investors abroad, a bilateral double taxation agreement would also benefit home companies that would be able to import services crucial to their technology and competitiveness.

A Bilateral Investment Agreement

When addressing the opportunities for enhancing bilateral investments between Brazil and the United States, special attention should also be paid to the negotiation of a potential bilateral investment agreement.

According to the United Nations Conference on Trade and Development (UNCTAD), in 2017 there were 3,322 bilateral investment treaties (BITs) and other treaties with investment provisions signed around the world. While the United States had signed thirty-eight BITs by 2015, most in force, Brazil remained one of very few countries that did not have a single international agreement on investments in force.

Though Brazil had earlier followed the flood of BITs in the 1990s—signing fourteen, mostly with European countries—these agreements were later rejected by the Brazilian Congress, which argued that some provisions were unconstitutional.

Criticism was directed toward investor-state dispute settlement clauses (ISDS), as well as to indirect expropriation. As a consequence, BITs became taboo in Brazil—the country avoided the discussion for years, while the number of international agreements on investments in the world ticked upward.

Brazilian economic growth in the 2000s propelled Brazilian companies to increase their investments abroad. Brazil started to be seen—and also to look at itself—as not only a recipient of FDI, but also as an investor in other countries, especially in Latin America and Africa. Against this background of being a late comer in exporting capital, the Brazilian government finally started to revisit investment agreements.

The perspective at that time was that Brazil had always been among the top recipients of FDI in the world without having agreements in force, so investment agreements were not needed to attract FDI but rather to foster Brazilian investment abroad. This is fundamental to understanding what would become the innovative Brazilian Agreements on Cooperation and Facilitation of Investments (CFIAs). These agreements, signed since 2015 with many countries in Africa, Asia and Latin America, are strongly focused on investment facilitation clauses, institutional governance, prevention of disputes and risk mitigation, as opposed to traditional BITs which are focused on investment protection clauses.

One main feature of the Brazilian model is the establishment of focal points or ombudsmen in each party to act as one-stop-shop facilitators of the relationship between investors and the government. Investment-related issues and problems can be treated directly with the ombudsman, who is responsible for providing appropriate assistance, government support as well as connecting with other relevant authorities if necessary. Besides that, a Joint Committee, composed of government representatives of both parties, also work for dispute prevention and amicable settlement of any issues involving bilateral investments. If a dispute cannot be solved by this prevention framework, it can then be brought to State-State arbitration procedures. ISDS clauses are not included in the Brazilian CFIAs.

In terms of investment facilitation, which is dominant in the CFIAs, there are clauses focused on promotion of investment flows, tackling issues such as visas, licenses and certifications, capacity building, among others. The CFIAs also provide for the negotiation of supplementary issues that are important for investments, bringing a framework than can more easily evolve and adapt according to investors’ needs. The visa case, for instance, is an interesting innovation. The issue is not usually covered by agreements on investments, but as investors are very aware, difficulties in obtaining and renewing business visas can significantly hinder the evolution of projects. CFIAs provide for special conditions for business visas, such as reduced deadlines, multiple entries and extended validity.

Finally, as expected in any agreement on investments, there are also typical protection rules, such as non-discrimination (national treatment and most favored nation), direct expropriation, compensation, international transfers and transparency clauses.

The aforementioned typical protection rules represent the basis of BITs signed by the United States over the years. But the US model is much more comprehensive. US and Brazilian perspectives are indeed quite different, as Brazil does not include ISDS, indirect expropriation, and fair-and-equitable-treatment clauses.

Though differences have made negotiation of a BIT hard to imagine in the past, recent developments today indicate the opposite. A concrete window for bilateral negotiations exists now.

For one, the United States has started to adopt a
different perspective on the most controversial clause that used to set apart the negotiation positions of the United States and Brazil. The recently signed agreement between the United States, Mexico, and Canada (USMCA) no longer provides for ISDS between Canada and the United States, including a sunset clause of only three years.

ISDS can still be used between Mexico and the United States, but only in certain cases. For instance, investors can bring claims about expropriation and non-discrimination, but issues such as fair and equitable treatment cannot be claimed under ISDS in most cases. Above all, even in these situations, investors need to first resort to local remedies and domestic courts. Only if they do not reach a solution does arbitration become an option. There are exceptions for a few sectors with special provisions, such as oil and gas.

Despite not being a determinant *per se* for FDI attraction, a bilateral investment agreement deals with important issues for investors. When tackling investment facilitation, agreements can lower transaction costs that, if summed together, are indeed burdensome. Altogether, a bilateral investment agreement will undoubtedly help offer a better environment for businesses across the two countries.

All in all, there is a window of opportunity for exploring both a double taxation agreement and a bilateral investment agreement. Against the backdrop of Brazil’s movement toward accession to the OECD, Brazil will have to modify its legislation and move in the direction of OECD’s rules to join the organization. Efforts in this direction have already begun, and may prove decisive in any formal discussions with the United States.
Key Recommendations

To lay the groundwork for increased economic integration between the United States and Brazil, this paper proposes the following recommendations for consideration by the US and Brazilian governments. These suggestions aim at addressing the core, collective challenges posed by trade irritants and other barriers to trade and investment, and at creating a mutually beneficial framework to foster the bilateral flow of goods, services, and capital.

**SHORT TERM – 2020**

The United States and Brazil should:

1. **Conclude a multi-chapter trade enhancement agreement**

   Brazil and the United States should conclude a trade enhancement agreement on a specific number of areas of interest. Possible chapters include customs administration and trade facilitation, good regulatory practices, technical barriers to trade, digital trade, and anti-corruption. Under a more ambitious approach, the agreement could also encompass the areas of services, investment and public procurement.

   A multi-chapter trade enhancement agreement is more likely to produce results in the short term and would narrow the number of issues for any potential free trade agreement negotiation. On the Brazilian side, as long as there are no preferential tariff discussions, the agreement could also encompass the areas of services, investment and public procurement.

   A trade enhancement agreement would have relevant economic value for both parties: it would create a set of rules and commitments that would facilitate and foster bilateral commerce; it would provide predictability and legal security that would boost two-way investments; and it would serve as a building-block for a potential FTA in the longer term.

2. **Start negotiations for an agreement to avoid double taxation**

   A bilateral Double Taxation Agreement (DTA) would propel foreign direct investment. Along with adding to the business environment, the establishment of rules on income-tax distribution between residence and source countries has practical benefits for companies investing on both sides.

   The scenario looks promising, as both the United States and Brazil have been reviewing their DTA models. In particular, Brazil’s decision to accede to the OECD requires that the country modify its transfer-pricing practices. A DTA negotiation would represent an additional political and practical opportunity for Brazil to move in the direction of adhering to the OECD’s rules.

   Against this backdrop, the United States and Brazil should launch formal negotiations for an agreement to avoid double taxation as soon as possible, which would send a strong signal about the importance of the issue.

3. **Create a high-level mechanism to oversee and strengthen the bilateral relationship**

   The United States and Brazil should consider the creation of a high-level and comprehensive mechanism to oversee and strengthen bilateral trade and investment, led, ideally, by the vice presidents of each country. Such a mechanism would build a strategic framework to guide the bilateral relationship, enhance the bilateral dialogue and keep both administrations continuously engaged.

   Through this mechanism, both governments would meet regularly and track progress on jointly defined goals. Additionally, this body could provide political guidance for further technical work.

   This would require: the participation of government representatives at both political and technical levels, and from multiple agencies; the maintenance of a periodic schedule of meetings; a strategic working
agenda; systematic monitoring of its scope; and the establishment of a formal channel for the participation of the private sector (including interaction with the reactivated CEO Forum).

The mechanism should work in coordination with the existing dialogues and groups to assure greater coherence and smoother interagency work among them. Such groups include the US-Brazil Commission on Economic and Trade Relations (under the Agreement on Trade and Economic Cooperation), the US-Brazil Commercial Dialogue, the Defense Cooperation Dialogue, and the Infrastructure Development Working Group.

4 Enhance good regulatory practices and sector-specific regulatory cooperation, working closely with the private sector

The United States and Brazil should continue sharing good regulatory practices, with an eye on regulatory impact analysis and public consultation, transparency in regulatory development and implementation, and with a heightened focus on a whole-of-government approach (i.e., a central regulatory coordinating body).

Because the United States and Brazil take different approaches to technical regulations and standards development, as well as to conformity assessment procedures—which can raise costs for businesses looking to trade bilaterally—both countries should identify one or two sectors for enhanced regulatory cooperation. Potential sectors include oil and gas, healthcare, life sciences, crop protection products, chemicals, genome editing, artificial intelligence (AI) and the internet of things (IOT). In choosing any sector, engagement with and the commitment of the private sector of each country is key.

Good regulatory cooperation should include a deeper understanding of each country’s regulatory systems, and the role of regulators in them, exploring the possibility to mutually accept conformity assessment results in order to facilitate reciprocal market access.

In both the good regulatory practices exchange and the enhanced regulatory cooperation, Brazil and the US should encourage and create opportunities for the participation of the private sector. Though the enhancement of good regulatory practice should be prioritized in the short run, technical efforts and engagement with the private sector have to continue over time.

The existing Memorandum of Understanding Regarding Joint Cooperation on Good Regulatory Practices between the Executive Secretariat of the Foreign Trade Council (CAMEX) and the Casa Civil of Brazil and the US International Trade Administration (ITA) and Office of Information and Regulatory Affairs (OIRA), which dates from 2018, should be used as a framework for this effort.

5 Initiate efforts to increase communication and cooperation on standards-development in emerging sectors, working closely with the private sectors of both countries

The two countries should initiate an effort to enhance communication and cooperation on standards development in the areas of AI, IOT, and/or genome editing. These transformational technologies are redefining manufacturing and business, and enabling new consumer products and services. International standards development ensures that customers are able to use technology products and services around the world, regardless of country of origin or market.

Considering that the United States and Brazil traditionally pursue different approaches to standards development, there is risk that “country-unique” standards will serve as a barrier to future innovation, investment, and trade in these critical sectors of the 21st century.

To fully realize the benefits of these technologies—and address associated challenges—collaboration among the private and public sectors is critical. To that end, this paper urges the United States and Brazil to launch an effort in which both countries participate in consensus-based, industry-led, and global standards development bodies for the benefit of both developers and users of these technologies.

Such an initiative would result in increased and appropriate adoption and use of these cutting-edge technologies, resulting in enhanced competitiveness and enhanced opportunities for trade and investment.

6 Coordinate efforts to ensure the effective initiation of Brazil’s accession to the OECD

Building on the recent announcement by the US government that it would back Brazil as the next country to accede to the OECD, both countries should coordinate efforts before the organization and its membership to have Brazil’s process formally started yet this year.

This would effectively trigger the accession framework, kicking off a review of Brazil’s legislation and public policies. Meanwhile, Brazil should continue its journey to incorporate the OECD “acquis,” expanding its position as the non-member country with the largest number of accepted instruments.

At the same time, Brazil and the United States could cooperate, on a technical basis, on specific issues—such as tax, movement of capital, investments, and good regulatory practices—that will have to be addressed by Brazil along the way to becoming a member.
Conclude a Mutual Recognition Agreement between national trusted traders programs

In line with the joint statement issued by Presidents Donald Trump and Jair Bolsonaro in March 2019, the United States and Brazil should prioritize completion of the steps required to mutually approve their national trusted traders or AEO programs. Doing so would ease customs bureaucracy and reduce time and costs in the bilateral exchange of goods.

National AEO programs provide advantages for companies of all sizes and sectors. Exporters benefit from reduced inspections on goods and quicker clearance at the borders. AEO programs also increase efficiency within customs administrations, allowing for better resource allocation, particularly toward inspections of unknown high-risk cargo. As a consequence, it also contributes to increasing trade flows.

Brazil and the United States first committed to mutually recognizing their AEO or trusted traders programs in 2015. Such a measure requires involvement of the Ministry of Economy in Brazil, Receita Federal and of the US Customs Border and Protection to establish a standard set of security requirements that allows each program to recognize the validation findings of the other program.

This agreement would allow that low-risk companies enrolled in the national program from one country be automatically accepted in the other program, extending more agile and less bureaucratic customs procedures to those companies.

Adopt electronic phytosanitary certificates in bilateral trade

The United States and Brazil should conclude the adoption of electronic phytosanitary certificates (ePhyto) in lieu of paper documents. The ePhyto is the electronic version of a phytosanitary certificate, comprising all the data contained in a paper phytosanitary certificate.

The adoption of such a standard document in bilateral trade would expedite administrative procedures and reduce red tape and costs in exports of goods subject to phytosanitary certification, ultimately facilitating the exchange of agricultural products. It would also reduce the risk of fraudulent certificates and the number of shipments detained at customs, making the process more secure and reliable.

The exchange of electronic certificates could be done through the ePhyto Hub, developed by the International Plant Protection Convention (IPPC). In line with the 17th Edition of the US-Brazil Commercial Dialogue, which took place in 2019, Brazil is working to fully operationalize its participation in the ePhyto Hub by early 2020.

Implement a full-fledged Global Entry Program for Brazilian travelers coming into the United States

In 2019, Presidents Trump and Bolsonaro committed to taking the steps necessary to enable Brazil’s participation in the US Trusted Traveler Global Entry Program. Both countries signed a joint statement in November 2019 listing general criteria for the eligibility of Brazilian citizens and launching a pilot for a group of up to twenty participants of the Brazil-US CEO Forum.

As a next step, both countries should work to enable Brazil to fully participate in the US Global Entry Program by expanding its outreach to all eligible Brazilian citizens. This would make it quicker for pre-approved low-risk Brazilian travelers to enter the US territory, contributing to increased bilateral business and investments.

This recommendation requires further action from the Brazilian executive, specifically, the Policia Federal and Receita Federal, including the development of a simple electronic system to process such requests. This should be done in close cooperation and alignment with US Customs and Border Protection.

Increase US-Brazil policy cooperation in third countries and international fora in areas of investment and trade policy coherence

The United States and Brazil have the capacity to influence other governments on a variety of trade, investment, and other policy issues. The two countries should identify and develop an agenda for working together to shape trade and investment rules where they share common interests. By coordinating policy advocacy efforts, the two countries have the opportunity to enhance their influence on critical trade and investment issues.

Possible areas for such cooperation include food security and agriculture trade, trade and investment facilitation, biotechnology, AI, IOT, and/or genome editing.
The United States and Brazil should:

1 Conclude a comprehensive free trade agreement

An FTA would be the most ambitious bilateral economic achievement, considering its potential to create a comprehensive supporting legal framework to further economic integration between the United States and Brazil. Such an agreement could prove to be a powerful instrument to increase current—and stimulate new—flows of mutual trade and investment.

Although a multi-chapter trade enhancement agreement in the short term could generate important results and make the negotiation process for an FTA less complex, dealing with the remaining topics would be a challenging endeavor, especially with respect to market access.

To reach a successful outcome, both governments will need to engage at the executive-branch and congressional levels. Another fundamental aspect is broad transparency and dialogue with the private sectors of each country. Given the concrete private interests at stake, an open and participatory process will prove decisive for a positive outcome.

2 Conclude an agreement to avoid double taxation

As formal negotiations are launched, Brazil’s Receita Federal and the US Treasury should be prepared for a time-consuming and human-resources-intensive process. Even as current chances for a successful outcome are considerably higher than in the past, challenges cannot be underestimated. Besides transfer pricing, services taxation in Brazil may prove to be one of the most critical issues, given Brazilian fiscal constraints.

In addition to the technical work necessary to resolve differences and find solutions, political support at the highest levels of government will be critical.

3 Coordinate technical and political efforts to conclude Brazil’s accession to the OECD

Brazil’s process of accession to the OECD will not be easy. The country has a long journey as it strives to comply with the proposed accession roadmap and to fully adopt the OECD’s set of decisions and recommendations, going through a series of meetings in OECD committees and negotiation rounds with individual members. Throughout this process, coordination with the United States in terms of technical and political efforts will be key for the accession to be successfully completed.

As of October 2019, Brazil had met more than eighty of the two hundred and fifty-three instruments that form the OECD “acquis.” Brazil continues to advance on adhering to various regulatory best practices in agriculture/food, tax cooperation, BEPS, tax-information sharing for serious crimes, protection of e-commerce, and more. Nearly seventy points are actively being discussed between the Brazilian government and the OECD, and the Bolsonaro administration has already identified the next set of nearly sixty.

This year, the United States formally backed Brazil for OECD membership. In this inherently political process, long-term and continuous US support for Brazil’s accession will be key.

4 Conclude a bilateral investment agreement

Both Brazil and the United States already have a number of investment agreements in force with different countries. A balanced combination of an approach aimed at investment facilitation and traditional protection is desirable and feasible.

More recent international trends in this field highlight the relevance of facilitation provisions.

The conclusion of a bilateral investment agreement could lower transaction costs and add more certainty in the business environment. Interagency technical work will be necessary in order to meet this goal. Congressional approval would be necessary in Brazil and the United States.
As the two largest economies in the Western Hemisphere, the United States and Brazil have a unique opportunity to explore new ways to deepen their bilateral trade and investment relationship. To lay the groundwork for increased economic integration, this paper proposes key opportunities the United States and Brazil can harness in the short term to pave the way for longer-term goals, including that of concluding a free trade agreement—a goal both countries have long discussed.

To create a set of commitments that would facilitate and foster bilateral commerce, Brazil and the United States should explore a trade enhancement agreement on chapters including trade facilitation, good regulatory practices, and digital trade. A multi-chapter trade enhancement agreement concluded over this year would provide predictability and legal security that would boost two-way trade and investment in the short term and serve as a building-block for a potential FTA in the long term.

To propel foreign direct investment, the two countries should engage in conversations on an agreement to avoid double taxation. A DTA would add to the business environment and establish rules on income-tax distribution between residence and source countries, with benefits for investors on both sides.

The United States and Brazil should also consider the creation of a high-level and comprehensive mechanism to oversee and strengthen bilateral trade and investment, ideally led by the vice presidents of each country. Such a mechanism would build a strategic framework to enhance the bilateral dialogue and keep both administrations continuously engaged.

Enhancement of good regulatory practices and sector-specific regulatory cooperation in such sectors as oil and gas, healthcare, life sciences, chemicals, AI and IOT will open a host of doors for both countries. International standards development in emerging technologies also ensures that customers are able to use technology products and services around the world, regardless of country of origin or market.

In 2020, the US government formally affirmed its support for Brazil as the next country to accede to the OECD. As a next step, both countries should coordinate efforts before the organization and its membership to have Brazil’s process formally started yet this year.

Likewise, in line with the Joint Statement issued by Presidents Donald Trump and Jair Bolsonaro in 2019, the United States and Brazil should Conclude a Mutual Recognition Agreement between national trusted traders programs to increase efficiency within customs administrations, allowing for better resource allocation. The two countries also have an opportunity to adopt electronic phytosanitary certificates (ePhyto) to expedite administrative procedures and reduce red tape and costs.

Commerce is facilitated by the ease of movement of people. Presidents Trump and Bolsonaro committed to taking the steps necessary to enable Brazil's participation in the US Trusted Traveler Global Entry Program in 2019. Following the pilot project, both countries should work to enable Brazil to fully participate in the US Global Entry Program.

And, beyond their own borders, by coordinating policy advocacy efforts with third countries, the United States and Brazil have the opportunity to enhance their influence on critical trade and investment issues.

The aforementioned short-term opportunities pave the way for the conclusion of a more comprehensive FTA, a DTA, and a bilateral investment agreement, which combined would foster far greater trade and foreign direct investment, improving the economic realities of both the United States and Brazil.

The road to a deeper economic relationship between the United States and Brazil has not been and will not be easy. But, with the political will and the support of the private sectors of both countries, the Western Hemisphere’s largest nations have the potential to maximize their commercial benefits.

The United States and Brazil are already important commercial partners. In areas of trade and foreign direct investment, further collaboration among the two countries is a natural next step to prosperity and economic growth.
Acknowledgments

Just as deepening trade and FDI is a bilateral effort by the United States and Brazil, so too were the efforts put forth in this paper. This publication included a host of actors from government and the private sectors of the United States and Brazil.

For their partnership and support, the Atlantic Council's Adrienne Arsht Latin America Center would like to acknowledge the contributions of its authors, Abrão Neto, Ken Hyatt, Daniel Godinho, Lisa Schineller, and Roberta Braga, and the stakeholders and in-country partners that helped make this publication a reality. A special thank you to Renata Vargas Amaral for lending the paper her legal expertise.

Thank you to those who took part in the consultative roundtables in Washington, DC, and on the sidelines of the Brazil Investment Forum in São Paulo, Brazil. Special recognition goes to Ambassadors Sérgio Amaral and Benoni Belli, who helped cultivate the initial idea for this partnership, as well as to Ambassador Nestor Forster and the Embassy of Brazil in the United States for their partnership and insight.

Thank you also to the many stakeholders who provided their insight and feedback through consultations, including leaders from the energy, defense, agricultural, pharmaceutical, biochemical, and steel industries, industry federation leaders, and others.

Thank you to Adrienne Arsht Latin America Center Director Jason Marczak for his guidance, and to the other Adrienne Arsht Latin America Center Senior Brazil Fellows Ricardo Sennes and André Soares for their valuable insight throughout this process.

Thank you also to Valentina Sader, assistant director at the Adrienne Arsht Latin America Center, and to Sarah Hennessey and Frederico Fróes, who supported research for this publication. As well, thank you to Susan Cavan and the report editor. Thank you also to Donald Partyka and Nikita Kataev for their beautiful report design.

Finally, the Atlantic Council extends a heartfelt thank you to Apex-Brasil, whose partnership and generous support made possible this comprehensive effort to lay out the practical next steps for strengthening US-Brazil bilateral trade and FDI. In particular, the Atlantic Council would like to thank Apex-Brasil President Sergio Segovia, as well as Augusto Souto Pestana, Igor Isquierdo Celeste, Gustavo Ferreira Ribeiro, Karen Kiyomi Hayashi, and Cintia Marques Faleiro.
#### About the Authors

**Abrão Árabe Neto**  
Abrão Árabe Neto is the executive vice president for Amcham Brasil, a not-for-profit organization that represents more than five thousand companies of various economic sectors, responsible for approximately 33 percent of Brazil’s GDP.

Prior to that position, he served as secretary of foreign trade of Brazil between 2016 and 2018, involved in several trade-and-investment negotiations, trade-and-investment facilitation initiatives, and leading areas in regional integration, trade remedies, and trade statistics, among other areas.

A career foreign trade public servant since 2013, Neto also acted as deputy secretary of foreign trade and director of international negotiations in the Ministry of Industry, Foreign Trade and Services of Brazil. Before serving the government, Neto worked as an international trade lawyer and as coordinator in the foreign trade and international affairs department of the Federation of Industries of the State of São Paulo (FIESP).

In 2008, he joined the Permanent Mission of Brazil to the WTO as part of a capacity-building program for lawyers in WTO issues. In 2017, he was distinguished by the Brazilian government as Commander of the Order of Rio Branco.

He holds a PhD in international law from the University of São Paulo, and a master’s degree in international economics law from the Catholic University of São Paulo. He was also a visiting PhD researcher at Georgetown University.

**Ken Hyatt**  
Ken Hyatt is senior advisor at Albright Stonebridge Group, and a co-founder and partner at CMPartners, where he advises clients of the firm on complex negotiations, trade, and investment matters in international markets.

Prior to joining ASG, Hyatt served in the US Department of Commerce as the acting undersecretary and deputy undersecretary for international trade. He oversaw the strategy and operations of the International Trade Administration (ITA) with an annual budget of approximately $500 million and more than 2,200 employees worldwide. He led ITA, which: contributes to the development of US trade policy; identifies and resolves market-access and compliance issues; promotes US competitiveness and the strength of US companies in the global economy; administers US trade laws; and undertakes a range of trade and investment promotion and trade-advocacy efforts. In this role, he worked with a wide range of US companies, helping them achieve their international objectives, and with foreign governments on the development and implementation of trade and investment policies. He also co-led the creation of SelectUSA, the US government’s investment-attraction agency, led the US government’s support for BrandUSA, the US national tourism-promotion organization, and co-led the development of the US National Travel and Tourism Strategy. In 2017, he was distinguished by the Brazilian government as Commander of the Order of Rio Branco.

Earlier in his career, Hyatt was a principal at Conflict Management Inc. and a management consultant with Bain & Company in its Boston, London, and Munich offices. At Bain, he led teams of consultants analyzing and implementing a variety of strategic and organizational projects at leading US and European multinational corporations, focusing on strategy development, mergers and acquisitions, sales and marketing strategy, and training.

Hyatt holds a juris doctor from Harvard Law School and a bachelor of arts from Yale. He also has been an associate at the Harvard Negotiation Project.
Daniel Marteleto Godinho
Daniel Marteleto Godinho, a nonresident senior fellow at the Adrienne Arsht Latin America Center, currently serves as corporate strategy director at WEG, a global solutions provider of industrial electrical technologies headquartered in Brazil. Prior to that, Godinho built his career in the public service as a foreign trade analyst since 2003, serving in many positions. From 2013 to 2016, Godinho served as the secretary of foreign trade of Brazil. Between 2016 and 2017, he worked as a senior consultant for the Inter-American Development Bank (IDB).

Godinho holds a law degree from the Federal University of Minas Gerais and a bachelor’s degree in international relations from the Catholic University of Minas Gerais. He also holds a post-graduate degree in international business from the Catholic University of Brasilia and a master’s degree in international law and economics from the World Trade Institute, an institution connected to the universities of Bern, Fribourg, and Neuchâtel in Switzerland.

Lisa Schineller
Lisa Schineller is managing director for S&P Global Ratings. Schineller is a lead analyst in Sovereign and International Public Finance Ratings for the Americas, and responsible for sovereign analysis covering key credits such as Argentina, Brazil, and Mexico. She also covers a number of multilateral institutions, such as the International Bank for Reconstruction and Development and the International Development Association. She coordinates with analysts, regionally and globally, on government-related entities across the region. Schineller also served as S&P Global Ratings’ chief economist for Latin America, part-time for five years through 2013.

Schineller was an adjunct associate professor at Columbia University’s School of International and Public Affairs from 2006 to 2009. She co-developed and co-taught a course entitled “Problems of Economic Growth in Latin America” for master’s-degree students. She continues to give guest lectures in a number of courses at the School of International and Public Affairs and the Business School.

Before joining S&P Global Ratings in August 1999, Schineller worked in the International Finance Division at the Federal Reserve Board of Governors in Washington, DC, for more than three years as the French desk economist and world oil economist. She was also an economist at Exxon Company International, Corporate Affairs. At Exxon, she analyzed and projected economic and energy developments in Latin America (mainly Brazil) and Europe.

Schineller holds a PhD in economics from Yale University and a BA in economics and Spanish from Wellesley College. Upon completion of her PhD, she was an assistant professor at McGill University, Faculty of Management from 1992–1994.

Roberta Braga
Roberta Braga is an associate director at the Atlantic Council’s Adrienne Arsht Latin America Center, where she leads projects on Brazil’s economic and political developments, and disinformation and misinformation in Latin America. Over the past four years, Braga has also led work on trade integration, energy, and anti-corruption in the region. During her time at the council, Braga helped launch the center’s #AlertaVenezuela and #ElectionWatch Latin America projects, which focused on exposing disinformation in and about Venezuela and around elections in Brazil, Mexico, and Colombia, respectively; executed projects on USMCA’s impact on energy and Venezuela’s oil crisis; and managed the center’s work on anti-corruption ahead of the 2018 Summit of the Americas. Braga also manages the center’s media and communications strategy and outreach.

Braga previously worked as a strategic communications analyst at the US Department of Homeland Security, and supported corporate affairs and public relations efforts at Promega Corporation, an international biotechnology firm headquartered in Madison, Wisconsin.

Braga frequently provides English-, Portuguese-, and Spanish-language commentary on political and economic issues in Latin America. She has been published in Newsweek and The Hill, and been quoted in The New York Times, The Wall Street Journal, The Financial Times, Axios, Brazil’s O Globo, and Estado de S.Paulo, among others. Originally from Brazil, Braga is a native Portuguese and English speaker, and fluent in Spanish.

She has a master’s degree in global communication and public diplomacy from the George Washington University’s Elliott School of International Affairs, and a bachelor’s degree in journalism and global security from the University of Wisconsin-Madison.
Endnotes


2 The United States holds 15 percent of foreign direct investment (FDI) in Brazil, equivalent to $119 billion in 2017 (against a lower $95 billion, with a methodology that includes immediate investment highlighting the use of intermediaries for US corporations). This US position takes the form (over 80 percent) mostly of equity, reinvested profits, or flows, rather than debt or intercompany loans. While China has risen to hold 2.7 percent to the stock of FDI in 2017 to $21 billion, up nearly threefold from $7.9 billion in 2010, the United States remains more significant. According to the Policy Center for the New South, while the Central Bank of Brazil has indicated that between 2014 and the first semester of 2018, the flows of Chinese investment in Brazil accumulated $20.7 billion, the Secretariat of International Affairs of the Ministry of Planning, Development, and Management (SEAIN-MPDG) estimates an amount of $28.6 billion. Banco Central do Brasil Direct Investment Report 2018.


6 Ibid.


16 Decision CMC 32/00, from the Common Market Council of Mercosur, states that tariff preferences to third parties from extra zone must be jointly negotiated.


19 Ibid.


21 Ibid.


29 Desilver, D. US tariffs vary a lot, but the highest duties tend to be on imported clothing. Pew Research Center. Accessed at: https://www.pewresearch.org/fact-tank/2018/03/28/u-s-tariffs-vary-a-lot-but-the-
highest-duties-tend-to-be-on-imported-clothing/


32 Ibid.


35 Brazil’s alternatives, EU and/or USA: do these partnerships complement or exclude each oth-er? FGV EESP and Amcham Brasil.


Atlantic Council Board of Directors

CHAIRMAN
*John F.W. Rogers

EXECUTIVE CHAIRMAN
*James L. Jones

CHAIRMAN EMERITUS
Brent Scowcroft

PRESIDENT AND CEO
*Frederick Kempe

EXECUTIVE VICE CHAIRS
*Adrienne Arsht
*Stephen J. Hadley

VICE CHAIRS
*Robert J. Abernethy
*Richard W. Edelman
*C. Boyden Gray
*Alexander V. Mirtchev
*John J. Studzinski

TREASURER
*George Lund

SECRETARY
*Walter B. Slocombe

DIRECTORS
Stéphane Abrial
Odeh Aburdene
Todd Achilles
*Peter Ackerman
Timothy D. Adams
*Michael Andersson
David D. Aufhauser
Colleen Bell
Matthew C. Bernstein
*Rafic A. Bizri
Dennis C. Blair
Philip M. Breedlove
Myron Brilliant
*Esther Brimmer
R. Nicholas Burns
*Richard R. Burt
Michael Calvey
James E. Cartwright
John E. Chapoton
Ahmed Charai
Melanie Chen
Michael Chertoff
*George Chopivsky
Wesley K. Clark
*Helima Croft
Ralph D. Crosby, Jr.
*Ankit N. Desai
Dario Deste
*Paula J. Dobriansky
Thomas J. Egan, Jr.
Stuart E. Eizenstat
Thomas R. Eldridge
*Alan H. Fleischmann
Jendayi E. Frazer
Ronald M. Freeman
Courtney Geuvidig
Robert S. Gelbard
Gianni Di Giovanni
Thomas H. Glocer
John B. Goodman
*Sherrri W. Goodman
Murathan Gûnal
*Amir A. Handjani
Katie Harbath
John D. Harris, II
Frank Haun
Michael V. Hayden
Amos Hochstein
*Karl V. Hopkins
Robert D. Hormats
Andrew Hove
Mary L. Howell
Ian Ihnatowycz
Wolfgang F. Ischinger
Deborah Lee James
Joia M. Johnson
Stephen R. Kappes
*Maria Pica Karp
Andre Kelleners
Astri Kimball Van Dyke
Henry A. Kissinger
*C. Jeffrey Knittel
Franklin D. Kramer
Laura Lane
Jan M. Lodal
Douglas Lute
Jane Holl Lute
William J. Lynn
Mian M. Mansha
Chris Marron
William Marron
Neil Masterson
Gerardo Mato
Timothy McBrine
Erin McGrain
John M. McHugh
H.R. McMaster
Eric D.K. Melby
*Judith A. Miller
Dariusz Mioduski
Susan Molinari
*Michael J. Morell
*Richard Morningstar
Virginia A. Mulberger
Mary Claire Murphy
Edward J. Newberry
Thomas R. Nides
Franco Nuschese
Joseph S. Nye
Hilda Ochoa-Brillembourg
Ahmet M. Oren
Sally A. Painter
*Ana I. Palacio
*Kostas Pantazopoulos
Carlos Pascual
W. DeVier Pierson
Alan Pellegrini
David H. Petraeus
Lisa Pollina
Daniel B. Poneman
*Dina H. Powell McCormick
Robert Rangel
Thomas J. Ridge
Michael J. Rogers
Charles O. Rossotti
Harry Sachinis
C. Michael Scaparrotti
Rajiv Shah
Stephen Shapiro
Wendy Sherman
Kris Singh
Christopher Smith
James G. Stavridis
Richard J.A. Steele
Mary Streett
Frances M. Townsend
Clyde C. Tuggle
Melanne Verveer
Charles F. Wald
Michael F. Walsh
Ronald Weiser
Geir Westgaard
Olin Wethington
Maciej Witucki
Neal S. Wolin
Jenny Wood
Guang Yang
Mary C. Yates
Dov S. Zakheim

HONORARY DIRECTORS
James A. Baker, III
Ashton B. Carter
Robert M. Gates
Michael G. Mullen
Leon E. Panetta
William J. Perry
Colin L. Powell
Condoleezza Rice
George P. Shultz
Horst Teitelschik
John W. Warner
William H. Webster

*Executive Committee
Members
List as of
February 24,
2020
The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today’s global challenges.
1030 15th Street, NW, 12th Floor, Washington, DC 20005
(202) 778-4952
www.AtlanticCouncil.org