

CNI-BDI-LADW JOINT DECLARATION ON BRAZIL-GERMANY BILATERAL TRADE AND ECONOMIC RELATIONS

In the event of the visit of Germany's Federal Chancellor, Olaf Scholz, – alongside a German business delegation – to the Brazilian President, Luiz Inácio Lula da Silva, on January 30th, the Brazil's National Industry Confederation (CNI), the Federation of German Industries (BDI) and the Latin America Committee of German Business (LADW) call on both governments to set the priorities for bilateral trade and investment in this year ahead.

As 2023 unfolds and further challenges arise, particularly resulting from the cost-of-living crisis, geopolitical tensions and energy prices spike, our countries share the same appeal for predictable, stable, and rules-based economic and trading systems. This momentum also offers an opportunity for Brazil and Germany to strengthen bilateral commercial and political ties as each continents' largest economies, and project shared regional leadership towards a sustainable, fair and inclusive growth.

Brazilian and German business relations are long dated and positively shaped by the strategic role its industries have played throughout a century-old prosperous relationship. In 2022, bilateral trade in goods reached US\$19,1bi – the highest on record since 2014. Bilateral trade in services amounted to US\$1,78bi in 2021, while investment stocks accounted for US\$14,5bi in the same year. On the other hand, as supply chains disruptions continue to shake world trade, further diversifying Germany's export destinations and imports source shall be a top trade policy objective.

While the economic benefits of a long-term relation between both economies made Germany the fourth main trading partner and Brazil the Germanys' main South American partner – the reality points to common challenges that hinder companies from contributing further to an even closer relationship.

In that context, CNI, BDI and LADW agree on the following five priorities that could bring bilateral trade and economic relations to the next level, inviting both countries' policy and decision-makers to cooperate with the respective industries to deliver them.

- 1. Conclude the EU-Mercosur Agreement.** Despite reaching an agreement in principle in 2019, discussions towards ratifying the EU-Mercosur Agreement have stalled due to a number of reasons. We firmly believe that, once in force, the Agreement will be pivotal to further increase bilateral trade, easing the path for higher added value goods and services, as well as cutting edge investments, to cross the Atlantic. An EU-Mercosur Agreement will land a groundbreaking free trading area with a market of over 717 million people, covering nearly 20% of the world's economy and 31% of global goods exports. Additionally, the Agreement also brings high quality environmental standards and climate action commitments by reaffirming, amongst other responsibilities, both blocs' pledges to multilateral agreements, as the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.

CNI, BDI and LADW call for a prompt conclusion of the negotiations and discourages reopening discussions on the trade chapters. The agreement reaches a balanced, fair and modern trading framework that could be harmed by new round of unnecessary negotiations.

We also encourage the Brazilian and German governments to work towards a reliable ratification process.

- 2. Modernize the action plan of the strategic partnership between Germany and Brazil.** The action plan of the strategic partnership between Brazil and Germany, which has been in place since 2008, would need to be modernized immediately and expanded to cover new areas of cooperation. These include the topics of decarbonization, digitalization/industry 4.0, cybersecurity, artificial intelligence and smart electrification. Germany maintains such a partnership with only very few countries worldwide, including Brazil as the only Latin American country.

Both countries should revive high-level government consultations, which previously took place only once in 2015. This form of political exchange is crucial to the expansion of bilateral relations. CNI, BDI and LADW are ready to assist both governments in preparing and accompanying the economic issues.

- 3. Launch negotiations for a new, modern bilateral Double Taxation Agreement (DTA).** International tax treaties are fundamental to boost international trade and investments, allowing predictability and settling the bases for longer term shared economic prosperity. Although Brazil and Germany had a DTA for over three decades, it has been denounced since early 2006 due to divergences in both countries' tax policies and interpretations over fees for technical services, transfer pricing and presumptive taxation. CNI, BDI and LADW welcome Brazil's efforts to converge further to OECD guidelines and the Organization's Tax Convention Model. Recent changes in Brazil's Transfer Pricing rules and the conclusion of a Brazil-United Kingdom DTA, signed on late November 2022, are positive developments and indicate a constructive momentum to agree a new, modern tax treaty with Germany. By modernizing its negotiation model on these points, we understand that Brazil's tax authorities signal its openness to negotiate new, and more ambitious, DTAs with developed economies.

We encourage Brazilian and German governments to launch negotiations with the aim of concluding a revamped Double Taxation Agreement aligned with international best practices, using the recent Brazil-UK deal as a reference for the three provisions mentioned above.

- 4. Progressing on Brazil's roadmap to accede to the OECD.** Brazil's accession to the Organization for Economic Cooperation and Development (OECD) remains a priority for CNI, BDI and LADW. Moving in the direction of regulatory, economic, fiscal, environmental,

technological, and political coherence amongst the most relevant global economies requires long term commitments from governments and private stakeholders. We welcome the efforts invested throughout the past years to engage further with OECD principles, making Brazil the non-OECD country with most adherent to the OECD legal instruments.

Becoming an OECD member will foster the implementation of structural and regulatory reforms, improving Brazil's business environment and wider economic competitiveness while also promoting greater legal certainty to attract foreign investments. Additionally, the negotiations to join OECD's membership also allows Brazil to promote a more sustainable and fair socioeconomic development model.

We request the Brazilian government to continue prioritizing its accession to the OECD as Brazil-Germany bilateral relations shall be positively impacted by these concrete benefits.

- 5. Promote bilateral initiatives in digitalization and Industry 4.0** –As technology developments grow further, it is important to close an important gap between innovations available in the market and the ability of industrial companies, particularly SMEs, to benefit from them in boosting productivity and competitiveness. We recognize the importance of collaborative initiatives between Brazil and Germany to foster the use of advanced technologies through successful recent experiences in both countries and further promote bilateral investment and research and development joint programs.

CNI, BDI and LADW invite both governments to develop an ambitious bilateral cooperation agenda aimed at developing innovative, accessible solutions that address the challenges faced by the Brazilian and German industries to scale up efficiently and competitively. The initiatives should address important topics such as 5G technology, cybersecurity, and sustainable energy transition.

Finally, as representatives of the industrial productive sector of both economies, we express our firm commitment to actively collaborate with governments to achieve a sustained economic recovery and deepen further bilateral trade, economic and political ties under shared democratic, sustainable and inclusive values.