

Summary of the DIT/Canning House Brazil Automotive Roundtable

On 17 September 2018, the Department for International Trade (DIT) and Canning House co-hosted a roundtable on the automotive sector in Brazil. This event brought together businesses that had experience in, or had expressed an interest in exploring and investing in the automotive market in Brazil. This document summarises that discussion.

Introduction and purpose of the roundtable.

- DIT described the conclusions of the UK-Brazil Joint Trade Review and that the automotive sector has been identified as a key sector for further policy co-operation. The UK and Brazil agreed to identify opportunities to improve trade in the sector at the Joint Economic and Trade Committee (JETCO) in March 2018 with recommendations for Ministers ready for the next JETCO in 2019.
- Building on the Trade Review, officials are developing a programme of work on trade facilitation and improving regulatory coherence and convergence, some of which will be delivered by HMG's Prosperity Fund.
- DIT also highlighted work to develop a mechanism for UK and Brazilian companies to engage in direct dialogue with each other and with both governments to further identify areas for cooperation.

The below reflects the views of automotive companies discussed under the Chatham House rule, and do not indicate HMG policy positions:

Perspectives on the automotive market in Brazil

- Companies perceptions of the automotive market in Brazil have changed considerably since they first entered the market.
- Some companies envisaged using Brazil's position within Mercosur and the wider region as a launch pad from which to manufacture and export to other Latin American countries. Poor economic, infrastructural and regulatory integration within Mercosur and the wider region has made this difficult.
- The recent economic downturn has meant that the growth of some companies in Brazil is significantly below original projections, and some companies were uncertain how sustainable continuing to trade with Brazil will be in the future.
- This is compounded by regulatory inefficiencies and protectionist measures.

Barriers to trade

- The landscape is changing on both the regulatory and economic front with firms seeing possible benefits from the introduction of Rota 2030¹. However, firms noted that it is not yet in force and key elements have not been described in detail. There has been a historic lack of transparent, predictable and consistent regulatory policy making.

¹ A policy announced in July 2018 which introduces several new measures, including but not limited to new rules for energy efficiency, vehicle safety and IPI (tax).

- Firms identified an urgent need for reliable and consistently applied ex-tarifário relief² particularly for premium manufacturers.
- Variations in states rules on ICMS taxes³ adds bureaucracy to the system. Companies reported that they had to invoice goods moving between two adjacent sites because they have different land registrations and tax regimes.
- Companies had significant concerns with the overall burden and methodology used to calculate taxation. This was the biggest driver of cost for many in the industry.
- Firms described how the inaccurate allocation of product codes by customs officials (which then need to be changed) adds costs to businesses. One company said this adds a cost of between 5-10%.
- Labour rules have much improved in terms of their flexibility over the last two years and should continue to be liberalised, but they can still be a barrier to business.
- Each of the countries in Mercosur use a different methodology to calculate local content requirements and determine origin. This adds significant complexity to businesses operating in multiple countries in the bloc.
- There are two different agencies responsible for emission standards and compliance requirements creating significant inefficiencies. Paperwork can take between 6-9 months to be processed, which is considerably slower than in European countries.
- The automotive standards in Brazil differ to those in the UK and EU which creates costs. Particular issues relate to emissions and energy efficiency and powertrain operation.
- In addition to the complexity, the lack of readily accessible information about the required standards and regulatory requirements is a major hindrance.
- Translation rules mean that it is very hard to even find out the basic information (e.g. whether there is a market for your product) when deciding whether to enter the Brazilian market.
- Businesses reported that whilst they were able to access good information through the Brazilian Embassy in the UK, it would be beneficial for more information to be provided about the potential challenges, risks and preparatory work associated with entering the automotive market in Brazil.
- Attendees also highlighted the value of talking to and learning from similar Brazilian-based companies and UK-based companies that have already entered the Brazilian market. Any initiatives that increase opportunities for companies to forge links with each other would be welcomed.
- Companies generally didn't see any risks or issues related to intellectual property.

Next steps

- DIT will take forward the results of this discussion during conversations with the Brazilian government and seek further views as we agree recommendations.
- The UK-Brazil Business Dialogue in 2019 (UKBBD) will bring together UK and Brazilian businesses in a range of sectors alongside government officials, and we hope to use the UKBBD to seek further views and provide a progress update to the business community in advance of the next JETCO.

² Temporary reduction on import tax for products that are not produced in Brazil.

³ Tax on goods and services.