

**Written evidence submitted by Canning House to the Foreign
Affairs Committee enquiry on Global Britain and South America**

Key Industries and Opportunities for Trade with South America

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Executive Summary

- As the UK prepares to exit the European Union, Canning House has undertaken a series of projects looking at the impact of Brexit on the UK's trading relationship with Latin America. Input on these projects has been provided by some of the UK's most successful companies that trade and invest in the region.
- UK companies have lagged behind their European peers for decades when it comes to trading and investing with South American countries, despite being party to the same trade deals courtesy of its membership of the European Union. Nonetheless, Brexit could have significant implications for UK-South American business relations, if the UK is able to pursue trade agreements tailored to suit its strengths.
- Traditional industries such as oil and gas, renewables, mining, infrastructure development and construction, have long been sectors that have been attractive to UK companies operating in South America, and will continue to be so, whilst the regions' growing middle-class present plenty of opportunities for UK SMEs in the luxury goods sector, as well as in the provision of education and vocational skills training.
- Whilst significant challenges remain to doing business in South America, especially in big markets such as Brazil, companies should not be put off doing more business in the region, as progress to overcome barriers is being made.
- The UK government and their South American counterparts should continue to seek the opinions of industry and listen to the feedback from existing businesses that operate in the region, as well as those that have been reluctant to trade and invest there in the past, in order to resolve issues and obstacles at a policy or regulatory level.

About Canning House

For 75 years, Canning House has been the UK's leading forum for contacts, comment and debate on Latin American political, economic and social trends and issues, and business risks and opportunities. It has unsurpassed networks across governments, parliaments, embassies, companies, chambers of commerce, academia and civil society in general throughout Latin America and the UK. Its many corporate members and associates include well-known UK companies who already trade and invest successfully in Latin America. In addition to publishing in-depth reports, it chairs c. 50 events p.a. including business round tables whereby our companies and experts input to government enquiries. Canning House also acts as the secretariat to the All-Party Parliamentary Group for Latin America and its APPG single-country offshoots. It is a completely neutral, independent and non-political organisation.

About Cristina Cortes

A commercial director with international experience in government, finance and energy. 30 years' expertise in strategy, business development, government relations, commercial negotiations and financial management, ethics and compliance. Cristina took over as Chief Executive Officer of Canning House in April 2018. Of Anglo-Brazilian descent, Cristina speaks English, Spanish and Portuguese and has lived and worked in Europe, the USA and extensively in Latin America.

Proposal

1. Context

Since the UK began the process of withdrawal from the European Union (EU) by March 2019, Canning House has undertaken a series of trade-related projects that seek to help UK businesses overcome existing and potential barriers to increased trade with Latin America, and to assist HMG to frame its policy options vis-à-vis the region, by acting as a convenor for the business community to gather their input on the pragmatic issues they face when doing business in Latin America. It is proposed that Canning House share this work with the Foreign Affairs Committee in connection with its enquiry into Global Britain and South America.

The presentation, made by the CEO of Canning House, Cristina Cortes, will be a summary of work conducted by Canning House over the past 18 months, incorporating report summaries and findings from events. In particular, it will outline the findings and conclusions of four key events that the organisation has convened that have focused specifically on the post-Brexit business environment in the region. The events are as follows:

1. Canning Conference 2017: Doing Business in Latin America: Does Brexit matter?
2. Brazil Trade & Investment Policy Workshop
3. Trading with Brazil – Automotive Industry Roundtable
4. Trading with Brazil – The Life Science Industry Roundtable

The findings and conclusions from these events form the basis of this proposal and will provide the content for the proposed presentation to the Foreign Affairs Committee.

2. Does Brexit matter to the UK's trading relations with South America?

Brexit is likely to have implications for UK-South American business relations. When the UK leaves the EU, it will have to negotiate its own trade agreements with countries up and down the region, on its own terms and conditions. In general, South American economies have performed well in recent years, with some countries, especially those in business-friendly trade-blocks such as the Pacific Alliance, presenting many opportunities for UK businesses. Brexit could even act as a catalyst to increase trade relations between the UK and Latin America by re-focusing UK businesses away from their traditional markets of the past 40 years. However, conclusions from the Canning Conference 2017 - *Doing Business in Latin America: Does Brexit matter?* - suggested that, whether inside or outside the EU, plenty of opportunities for UK success already exist in the region. Many of these opportunities are currently being enjoyed by German, Indian, and Chinese companies, and by certain UK companies. Other UK companies could also take advantage of these opportunities— especially if they have access to the good information and advice that Canning House and its associates can provide, and with encouragement and support from the government.

The UK lags behind its European peers such as Germany, France and Spain, in terms of trade and investment in South America, and has for a long time been outperformed by US businesses. Chinese investment in the region has rapidly increased in recent years and is now a serious competitor for the US. However, China's accomplishment is proof that, given the right circumstances, it is possible

to enter the Latin American market and successfully increase market share, in a relatively short period of time.

Opportunities for doing business exist across the entire region. The bigger markets are obviously attractive to many businesses, but the smaller countries can be much easier to do business in. Oil and gas, renewables, mining, infrastructure development and construction, have long been sectors that have been attractive to UK companies operating in South America, and continue to be so. Owing to the growing middle classes, there are also plenty of opportunities in the luxury goods sector, as well as in the provision of education and vocational skills training.

This is not to minimise the obstacles and challenges - e.g. sluggish world trade, variable growth patterns within the region, regulatory protectionism, security and corruption issues, poor infrastructure (though this also represents an opportunity) and competition from other states. Brexit has created new challenges vis-à-vis trading in South America, such as whether existing trade deals can be rolled-over, and when discussions about future trade deals can officially begin. Nonetheless, exiting the EU means the UK has the potential to pursue trade deals with South American states that complement its strengths.

In order to maximize the opportunities for trading and investing in South America, the UK government should maintain the recently increased flow of visits of ministers and combine trips with trade delegations of business leaders. It should prioritise appropriate trade agreements in countries where there are most opportunities, and encourage more SMEs to trade with South America. Education is a key enabling area, and the government should encourage more South Americans to study in the UK and vice versa, as well as persuading more UK-based universities to establish campuses or partnerships in the region. The government should pay close attention to feedback from the business community regarding their pragmatic experiences and to this end should consider holding more round tables in conjunction with Canning House. The government should also consider becoming either a full member or observer member of alliances in the region such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and Mercosur.

The business community needs to remain flexible and patient when trying to enter the South American market or expanding their operations there, as it can take a long time to start seeing rewards. However, opportunities are unlikely to present themselves unless businesses get out there and find them. They should seek the advice of experts in the UK such as Canning House and its associates, including the UK government's experts in the UK and the region, and should also strongly consider working with local partners. Opening offices in the region can help, but only when operations are significant enough to merit doing so and when the organisation can bear the resource commitment. Businesses should also consider grouping together to form consortia when responding to tenders.

Key issues that South American governments need to tackle include protectionism and regulatory complexity. The harmonisation of markets such as is being pursued by the member states of the Pacific Alliance - Chile, Colombia, Mexico and Peru – of which the UK is an observer, should help UK exporters and investors. The Region's governments also need to do more to tackle corruption and to increase the transparency of bidding processes. Labour and tax laws are also particularly problematic for potential investors. If South American states do not want to fall behind their peers in Asia and elsewhere in attracting investment, they also need to increase efficiency and productivity in order to stay competitive.¹

¹ Canning Conference 2017 Report – *Doing Business in Latin America: Does Brexit Matter?* Published by Canning House, 2017.

3. What should be the UK's focus for larger markets such as Brazil?

Far and away the largest, most populous, and most resource rich country in South America, Brazil's percentage share of GDP represents almost half of all South American GDP (see Table 1). Building productive trade and investment links with Brazil is therefore key to delivering the UK's post-Brexit trade policy agenda in the region.

Table 1: Top 5 largest economies in South America by share of World GDP (PPP), 2015

Country	Rank	Percentage Share of South America	Percentage Share of World GDP
Brazil	1	48.6%	2.8%
Argentina	2	14.8%	0.9%
Colombia	3	10.2%	0.6%
Venezuela	4	7.8%	0.5%
Chile	5	6.4%	0.4%

Source: International Monetary Fund

In 2016, the value of trade between the UK and Brazil was £5.4 billion for goods and services, and the UK represented 8.3% and 7.4% of Brazilian total exports and imports from the EU. At the 2016 UK-Brazil Joint Economic Trade Committee (JETCO) Secretary of State for International Trade, Dr Liam Fox, and Brazilian Minister for Trade and Industry, Marcos Pereira, committed to strengthening trade and investment relations between the two countries. They agreed that UK and Brazilian officials would work together on a joint report to identify barriers to trade and explore opportunities for advancing trade and investment. The preliminary findings of this report were published in March 2018, with Ministers agreeing that the UK and Brazil would:

- Expand the Trade Steering Group established at the 2016 JETCO, with 2 work streams covering trade and investment in goods and services
- Ensure the goods and services work streams coordinate work to improve the business environment for firms and increase opportunities in bilateral trade
- Continue work under the goods work stream to consider trade facilitation, exports culture and technical assistance for Brazil through the Prosperity Fund
- Aim to develop a roadmap for sector-based discussions before the next JETCO
- Develop a dialogue between private sectors on both sides for services
- Welcome the signature of a memorandum of understanding between the Brazilian National Economic and Social Development Bank (BNDES) and UK Export Finance to finance infrastructure projects through co-financing and co-investments mechanisms. (N.B. UKEF has already announced up to £3 billion to support UK exports to Brazil).

Other progress in trade-related issues between the UK and Brazil was made in protecting Intellectual Property, and using Prosperity Fund money to help facilitate trade by reducing costs, improving efficiency, and creating new opportunities for additional countries to participate in trade chains. Moreover, at the March 2018 JETCO meeting (held in parallel with a Business Dialogue meeting of UK and Brazilian companies, attended by Canning House) the Minister hailed progress made in designing a programme that aims to achieve the following:

- Reduce the time and cost to import and export in Brazil through the implementation of technical solutions in ports.

- Support an additional number of micro, small and medium enterprises to export, import and participate in global value chains
- Increase Brazil's compliance with OECD instruments, moving towards accession
- Reduce the time for analysis and granting of patents and trademarks
- Identify issues in which Brazil and the UK could further develop regulatory practices
- Confirm the intention to work on a 4-year trade regulatory coherence programme to deliver technical assistance with a view to improve regulatory practices in Brazil²

The recent elections and the arrival of a new President (due to take office at the start of 2019), could represent a fresh opportunity for the UK to strengthen its trading relations with Brazil. However, trading and operating in Brazil is not without its problems. Therefore, Canning House has worked closely with its counterparts in the Department for International Trade (DIT) over the past 18 months to conduct more focused research to gather feedback from its corporate members and associates on their experiences trading with and operating in Brazil.

In October 2017, Canning House convened a workshop with its corporate members and other senior representatives from companies to help DIT identify what kind of trade policies they should pursue with Brazil, and where it could best help business. A diverse range of sectors were represented, including banking, finance, accounting, consultancy, life sciences, automotive, extractives, food and beverages. Each representative told of their experiences of doing business in Brazil and the challenges they faced, and identified ways in which the UK government could help overcome problems and obstacles. Brazil has a particular preference to favouring domestically produced goods over imports from outside the country, which can incur extra costs; and the meeting helped to expose many issues associated with complex regulation, local content requirements, permits, taxes, and tariffs. Other more general issues that were raised included the lack of mutual recognition of professional qualifications, complex labour laws, political and economic uncertainty, and the lack of enforceable dispute settlement mechanisms. As a result of this feedback it was suggested that the UK and Brazilian governments should work closer together to address the identified key priorities including:

- Simplifying the customs system between the two countries
- Having a dispute settlement mechanism in place to address issues when they arise
- Addressing market access issues at a government to government level
- Helping to promote more SMEs to trade with the region
- Identifying simple ways in which tariffs could be lowered
- Seeking appropriate enhanced trade agreements
- Reaching an agreement on Geographical Indications (GIs) for example, Scotch Whisky
- Lowering the level of permits required to conduct trade and business.³

Owing to the success of the aforementioned workshop, Canning House partnered with DIT on two further sector-specific round tables in September 2018, focusing on the automotive and life science industries respectively. These events brought together businesses that had experience in - or had expressed an interest in - exploring and investing in these respective industries in Brazil. Both sectors had been identified by the UK and Brazilian governments as key industries for further policy co-

² Department for International Trade, 2018. *Joint statement from UK-Brazil Joint Economic and Trade Committee*. [ONLINE] Available at: <https://www.gov.uk/government/news/joint-statement-from-uk-brazil-joint-economic-and-trade-committee>. [Accessed 20 November 2018].

³ Canning House Meeting Report, 2018 - *Brazil Trade & Investment Policy Round Table*. Published by Canning House, 2018.

operation at the JETCO in March 2018 - with recommendations for Ministers to be made ready for the next JETCO in 2019 - in order to improve trade in both sectors.

Life Sciences

In the life sciences market, companies attending acknowledged that Brazil is one of the most highly regulated countries in South America, but said that they felt a lack of technical staff in the Brazilian Government means that the regulations are often not properly understood, with inconstant application and a lack of clarity around the goal. Nonetheless, firms said that they felt Brazil's approach to regulation does seem to be moving in the right direction for facilitating improved international trade. Many barriers to trade were identified as well. The unstable macro-economic climate was considered a significant hindrance, but attendees felt that the fundamentals were improving. A lack of trade mark protection had caused problems in the past for some firms when securing entry into the market. It was mentioned that local manufacturing requirements vary between states in Brazil and are quite often subject to negotiation. Although this offers a degree of flexibility for firms, the lack of clarity adds complexity and makes it hard for firms to navigate sometimes. In some instances, the Brazilian Health Regulatory Agency (ANVISA) required a large number of safety and other tests requested beyond what would be required in other markets, and firms wanted to see this fall to a proportionate level. The requirement to establish local partnerships was also raised as a significant barrier, not least because it is difficult for firms to identify potential partners and perform the due diligence that is required owing to the lack of available information, but also because of the substantial legal fees and the need to use local law firms given the restrictions on foreign firms practicing law. Other concerns that were also raised by attendees focused on the lack of transparency in the tendering process in Brazil, such as information about successful and unsuccessful bids not being made publicly available; and the degree of local preference often not being declared, which disincentivised international companies from making informed decisions about whether to put in bids.⁴

Automotive Industry

In the automotive industry, companies' perceptions of the market in Brazil had changed considerably since they first entered. Some companies had originally envisaged using Brazil's position within Mercosur as a launch pad from which to manufacture and export to other countries in the region, but poor economic, infrastructural and regulatory integration within Mercosur and beyond had made this difficult. Economic downturn meant that the growth of some companies in Brazil had been significantly below original projections, with some companies uncertain how sustainable continuing to trade with Brazil would be in the future. This had further been compounded by protectionist measures and regulatory inefficiencies. Regarding more specific barriers to trade, many companies present commented that the landscape was changing on both the regulatory and economic front with firms seeing possible benefits from the introduction of Rota 2030⁵. However, firms noted that it was not yet in force and key elements had not been described in detail. All firms identified an acute need for reliable and consistently applied ex-tarifário relief⁶ particularly for premium manufacturers, and others were critical of the variations in different states' rules on ICMS taxes⁷, adding bureaucracy to the system. One company even reported that they had to invoice goods moving between two adjacent sites because they have different land registrations. Further issues raised included the burden and methodology used to calculate taxation, which was

⁴ Canning House & DIT Meeting Summary – *Brazil Life Sciences Roundtable Meeting*. Canning House and DIT, 2018.

⁵ 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).

⁶ Temporary reduction on import tax for products that are not produced in Brazil.

⁷ Tax on goods and services.

seen as the biggest driver of cost for many in the industry, along with the inaccurate allocation of product codes by customs officials (which then needed to be changed) adding a further 5-10% of costs to businesses.

Labour rules, although having been a major barrier in the past, were seen as having greatly improved in terms of their flexibility over the past two years albeit the liberalisation process needed to continue. The different methodology used to calculate local content requirements and determine origin within each Mercosur countries added significant complexity to businesses operating in multiple countries in the bloc. The two different agencies responsible for emission standards and compliance requirements created significant inefficiencies, with paperwork sometimes taking 6-9 months to be processed. Automotive standards in Brazil – particularly relating to emissions and energy efficiency - differed from those in the UK and EU, creating extra costs, and the lack of readily accessible information about the required standards and regulatory requirements was a major hindrance. Those attending 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 other UK companies that have already entered the Brazilian market. They also said that initiatives to increase opportunities for companies to forge links with each other would be welcomed.⁸

The work undertaken on trade policy with respect to Brazil has been greatly appreciated by DIT, who have now proposed that Canning House should play a further role in supporting the UKBBB (UK Brazilian Business Dialogue which runs in parallel to JETCO) effectively as its Secretariat. Canning House has additionally submitted proposals to DIT to host similar trade policy workshops looking into ways in which the UK can deepen its relations with other like-minded Latin American states that share the UK's 'Global' business approach, such as those that are party to the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) - Mexico, Peru, and Chile, and potentially Colombia.

4. Conclusions

Although South America has been identified by the UK government as a region of huge potential to trade with after exiting the EU, a lot of our research has indicated that there has been little preventing the UK from taking advantage of increasing trade and investment with the region over the past few decades; and it is clear that UK firms have failed to take advantage of agreements that the UK is already party to courtesy of its membership of the EU to the same extent as its European peers. However, Brexit does present the UK with a unique opportunity to forge new agreements with South American countries, taking full advantage of its main strengths, in a way that it was not previously able to do.

Significant tariff and non-tariff barriers to increasing trade and investment remain, especially in key markets such as Brazil. Nonetheless, by speaking to UK companies that already operate in the region – e.g., through round table workshops hosted by Canning House - the UK government will be able to identify the major challenges UK companies face, and be enabled to propose policy and regulatory solutions at the government-to-government level.

Owing to its position as the UK's leading forum on Latin America, and its potential to gather feedback from its corporate members and associates, Canning House is in a unique position to help

⁸ Canning House & DIT Meeting Summary – *Brazil Automotive Industry Roundtable Meeting*. Canning House and DIT, 2018.

the UK government ensure that its policy towards South America is targeted most effectively. Furthermore, Canning House would be pleased to further assist the Foreign Affairs Committee by convening its member and associate experts, who could provide written or oral testimony on other key areas identified by the committee, including recent economic, political and social developments in the region, as well as business risks and opportunities. .