

Diversification spurs exports

INTERVIEW WITH HE LUIZ FERNANDO FURLAN

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LUIZ FERNANDO FURLAN graduated in chemical engineering and business administration in Brazil, pursued further study in Brazil, France, Japan and the United States, and in 1976 embarked on a long career with Sadia S.A., one of Brazil's largest food processing companies. He joined Sadia's administrative board in 1978 as Director of Investor Relations, and was appointed Chairman in 1993, a position he held until his appointment as Minister of Development, Industry and Foreign Trade in 2002.

Brazil has posted record export figures over the past year. To what extent is this due to high global demand for commodities such as iron ore and soya beans, and how far does it reflect genuine economic diversification and increased productivity?

Despite the high commodity prices of last year, the sector whose exports showed the greatest growth was that of manufactured products – it was actually responsible for more than 55 per cent of Brazilian exports. The world trend in the commodities markets is obviously important, but the growth opportunities it provides are available to almost all countries. The growth of our exports last year was far above the world average.

In January, Brazilian exports for the preceding 12 months exceeded US\$120 billion, realising President Lula's goal of doubling exports between 2002 and 2006. How do you plan to sustain and increase this surplus in the future?

It is true that we have reached the goal of doubling Brazilian exports during President Lula's administration. We expect to continue growing due to the diversification of our products and markets. There are many world markets where Brazilian products are not yet widely known. One only has to look at the growth of our exports to regions such as Eastern Europe, Asia and parts of Latin America where we are seeing an average growth of over 40 per cent.

The growth of exports this year will be lower than the average of the last three years, due to the need for investment in infrastructure, mainly in the logistics segment and Brazilian ports. We are currently working on a set of reforms intended to boost economic activity and to promote investments in the productive sector of Brazilian economy.

There are measures coming into force that give better treatment to investments in the machine and equipment sector. These measures will also favour export-orientated enterprises, stimulate investments in ports, and allow attractive credit lines for projects linked to innovation and infrastructure. Several changes in the exchange legislation suggested by the private sector are under consideration in Congress, and many other initiatives aimed at cutting red tape are coming into effect. All these actions will reduce costs and increase our competitiveness.

Is this trend sustainable in the face of a strengthening Real and interest rates that are among the highest in the world. Surely some sort of correction is inevitable, isn't it?

It is true that the current valuation of real is hindering some exporting sectors, mainly those related to labour-intensive activities that use components and raw materials produced in Brazil and priced in local currency. We believe that the same valuation of the real is normal if you consider the fact that Brazilian economy has stabilised, inflation is low and the country risk is also falling. We are very close to the bottom line of this valuation. The speed of growth of our exports is declining and imports continued to grow by 18 – 20 per cent in the first quarter of this year. While imports continued at a brisk pace, exports rose by only 8 per cent in January and somewhere in the region of 5 or 6 per cent in February.

The WTO Hong Kong Ministerial was a big disappointment, and your discussions with your European counterparts in Davos last month gave little more cause for optimism. How confident are you that a deal can be reached before the April 30 deadline agreed in Hong Kong?

It is true that the Hong Kong Ministerial Conference did not produce the necessary advances. In the informal meeting of Trade Ministers held at Davos we agreed that the Doha Round must make progress. Another ministerial meeting is scheduled for March so that in the April and July meetings we might achieve some meaningful outcomes. Brazil is prepared to make concessions in the areas of service and manufactured products, provided that we are also offered corresponding concessions in our own target sectors. What Hong Kong was able to achieve was an agreement on the elimination of all forms of export subsidies, to be completed by the end of 2013. This is one of three important pillars of the agricultural negotiations.

What are your thoughts on the US proposal to cut its agricultural subsidies in return for reciprocal action from the EU? What would such a move mean for Brazil?

The big issue raised by the European Union offer is that eight per cent of the products are placed on an

Manufactured goods have accounted for more than 55 per cent of Brazilian exports over the last twelve months

exemption list. The practical effect of the liberalisation will therefore be very limited indeed. It is important to take into account that the liberalisation of world markets tends to bring greater benefits to the countries and enterprises that are more organised, those who have consolidated world brands, those who have the required technologies and distribution channels. In this case, Europe would reap substantial benefits through the increase in demand from the developing countries for its manufactured products and services. This would widely compensate the concessions they eventually make in the agricultural area.

What role can – and should – Brazil play in bringing the US and EU closer together, on trade and other international issues?

The creation of the G-20 was a way to raise a third force to act as a tertius in the natural conflicts between the USA and EU in trade related issues. Few people believed in the resilience of the G-20 when it was created, but it has since proved itself to be a proactive protagonist. This group has no interest in blocking the conclusions of the Doha Round; on the contrary, the G-20 knows that the emerging countries will benefit from a comprehensive conclusion of the negotiations in the WTO.

How do you see the development of Mercosul in the light of the recent disagreements between Brazil and Argentina? What effect do you expect Venezuela's membership of the organisation to have on its future direction?

There is no disagreement between Brazil and

Argentina. In NAFTA, for instance, if you observe the trade relations between Mexico and the USA, or the USA and Canada, what you will realise is that the closer their integration becomes, the greater the number of subjects on the negotiating table. This is a normal process. Even within the EU there are such reactions as a result of the integration process. You might remember the conflicts that affected trucks carrying merchandise across the borders of Spain, France and other countries, caused by certain sectors that suffered from the change in competitiveness as a result of economic integration. The products under the Brazil-Argentina Monitoring Commission represent less than five per cent of our bilateral trade. What is important is that the bloc already has an adequate body to solve these commercial disputes. The press reflects exactly the voice of those who are being negatively affected, while the great majority of those sectors that benefit from the integration process are not in the news. Both Brazil and Argentina are growing, and new opportunities will emerge so that Mercosul will become stronger. The entry of Venezuela in to Mercosul further broadens its markets, and the bloc gains as a more comprehensive free trade area as other countries also join.

Until very recently, Brazil was on the US blacklist of counterfeit goods producers. What led to its removal from the list and what further measures is the government taking to clamp down on the theft of intellectual property?

Brazil is no longer on the US blacklist due to a decisive effort made by the Brazilian Congress adopting new laws and regulations that prohibit and severely punish counterfeiting. The Ministry of Justice created an intergovernmental committee that was able to take tougher actions against smuggling, counterfeiting and fraud. These measures were recognised by the USA as positive steps in the right direction. Another important measure was the restructuring of the National Institute of Intellectual Property Rights (INPI) with new equipment, more advanced control systems, and the hiring of more than 300 new technicians and specialists in order to modernise the system of patents and trademarks. These actions will provide better conditions for Brazilian and international industries.

Brazil has many famous names but few famous brands. What is your strategy for raising awareness of Brazilian products and companies internationally? What do you regard as the defining attributes of "Brand Brazil"?

Our strategy is to use known names in order to promote "Brand Brazil" abroad. We intend to use events

The city of São Paulo: industrial and commercial hub of Brazil



such as the one that promoted Brazil in London at Selfridges in 2004 as well. Brazilian soccer players, Paulo Coelho's books and Brazilian musicians – like our Minister of Culture, Gilberto Gil – are icons that help to show Brazil overseas. President Lula was also present at some of these events. More than a hundred events in the cultural, commercial, investment and artistic areas helped to show Brazil as a symbol of the joy of living; country that is becoming a symbol of fashion, design and, at the same time, becoming known as a country of technology and innovation. Brazil also took part, together with the UK and USA in the Human Genome Project. I strongly believe that we are now well into a process of positive transformation of the attributes of "Brand Brazil".

Brazil's infrastructure deficit is so serious that the Chinese are now looking at investing in roads and ports in Brazil in order to get Brazilian commodities and products to market more quickly and cost-effectively. Is this not slightly embarrassing for a country with the world's tenth largest economy? What measures is the government taking to improve the situation?

The infrastructure issue in Brazil is critical, considering the growth of Brazilian economy and the increase in foreign trade flows and industrial and agricultural production in recent years. Over the last four years there has been additional demand of more than 200 million tons over the country's logistic infrastructure. We are attracting investments in roads, railways, pipelines and ports, in order for the national infrastructure to be able to meet this increasing demand. In the energy sector we have made progress in installing transmission lines, ensuring that the country is now completely connected. Local problems can now be solved through the transportation of energy to various regions of the country. The most significant Chinese investment to date is in a gas pipeline in Northeast of Brazil, but there have been no Chinese investments in Brazilian roads or ports. However, they have expressed interest in signing long-term contracts for raw materials such as agricultural and mineral commodities.

The timing for biofuels has never been better, with high oil prices, security issues and environmental concerns at the top of the international agenda. How does Brazil intend to capitalise on this unprecedented level of interest in one of its core competencies?

Brazil is a prominent producer of biofuels, such as ethanol. The world is facing a critical energy crisis and many countries have already adopted legislation to mix plant-derived fuels with petroleum products. At

the beginning of February, the European Commission announced that it would take tougher action on this matter. The Commission wants 5.75 per cent of Europe's transport fuels to come from plant sources by 2010. This is only one example of the opportunities which we have to increase even further our exports. President Bush of the US has also made statements in this direction, and the EU agriculture commissioner, Mariann Fischer Boel, is on record as saying that the EU needs to stimulate the demand for biofuels. So Brazil will not simply be a spectator in this process. The production of flex-fuel automobiles in Brazil has already surpassed the production of automobiles with conventional engines.

On the face of it, Britain would appear to be an ideal partner for Brazil, given the complementary nature of the two countries' economies. How significant is President Lula's State Visit to the UK in March, and what are your own objectives and expectations for the visit?

Our two countries certainly complement each other economically. The British and Brazilian positions are largely convergent in areas such as agriculture, so we do not have conflicts of interest. I had very productive contacts with the former Secretary of State for Trade and Industry, Patricia Hewitt, and now with Alan Johnson. We expect to achieve even greater integration in terms of investments and exchange of technologies. Many British companies have established important production plants in Brazil and I am sure that we can strengthen our bilateral trade relations after President Lula's State Visit to the UK. **F**

Brazil is counting on its icons to boost demand for its products internationally



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