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EU-LATIN AMERICA RELATIONS
TURNING INVESTMENT INTO OPPORTUNITY

Summer 2012

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Facilitating the internationalisation of Latin American SMEs

Apoyo a la internacionalización de las pymes de América Latina
Apoio à internacionalização de PMEs na América Latina

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EU-LATIN AMERICA RELATIONS

TURNING INVESTMENT INTO OPPORTUNITY

A one day Policy Summit on EU-Latin America relations
within the framework of the AL-Invest IV Programme to input into the preparations of the 2013 official EU-Community of Latin American and Caribbean States (CELAC) Summit and the second public-private dialogue event between the European Union and Latin America on "Foreign Direct Investment and SMEs"

co-organised by Friends of Europe and EUROCHAMBRES and the United Nations Economic Commission for Latin America and the Caribbean

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EXECUTIVE SUMMARY

European investment in Latin America and trade flows continue to increase year after year. As João Aguiar Machado, Chief Negotiator for EU-Mercosur trade negotiations and European Commission Deputy Director for Trade, said: "Foreign direct investment in Latin America in recent years has increased by considerably more than to the world as a whole." Clearly, the crisis in Europe has not led to a standstill in the relationship between Europe and Latin America.

The integration of human capital is likely to speed up as a result of booming economies in Latin America and retrenchment in Europe. "Some of the countries in Europe are under great stress and we are seeing emigration out of Europe starting again," Pierre Vimont, Executive Secretary General at the European External Action Service (EEAS) noted. "Latin America could once again become a continent that could attract new citizens."

A great many trade and investment agreements have been signed between the EU and Latin America. In the week of the summit alone, agreements were being signed with Colombia, Peru and a number of central American countries. However, perhaps the most important negotiation – with Mercosur – is being frustrated by concerns on both sides over protectionism.

One of the biggest challenges for Latin America is to become more self-sustaining. For this to happen, volumes of trade between each of the countries must increase and there will have to be greater co-operation and agreement, including enhanced formal and informal networks. Mercosur has seen cross-border trade increase tenfold between member countries in less than two decades, an average annual growth rate of 15 per cent. Nevertheless, major differences remain between national marketplaces.

SMEs are the key to the process of sustainable intra-regional growth. Further up the value chain, there are many family-owned companies that have existed for many years and require assistance to reach the next level and internationalise. Multinational companies are an important part of the development matrix too. They both transfer technology and resources to the local region while benefiting from its dynamic population.

Internal market dynamics could be enhanced if politicians made greater efforts to link the region and started trading as a bloc. Vibeke Rovsing Lauritzen, Representative of the Danish EU Presidency and Under-Secretary of State for the Trade Council of the Ministry of Foreign Affairs, Denmark, said: “Integration has been slow and mainly driven by the private sector. Governments could play a more active role in trade liberalisation. We need to ensure a good investment climate by strengthening institutions and legislation and creating a stable environment for investors.”

Huge natural resources can provide considerable impetus for any economy. But resources don’t last forever and in the past they have been squandered in various parts of the globe. Latin America is seeking to avoid this fate by seeking ways to add value to its commodity-led markets. Europe, with its vast experience of service provision, has a crucial part to play in this. However, European institutions and companies are advised they should focus closely on value-added services if they are to maintain relationships with Latin America and not lose out to fast-growing Asian competitors. For value to be added, infrastructure is critical. However, in some areas it is severely lacking, providing a disincentive to investors.

WHY EUROPEAN INVESTMENT IN LATIN AMERICA IS STILL SO BUOYANT

For Latin American countries it is almost as though the financial crisis never happened. Growth rates may have tempered recently and ratings agencies have downgraded some of the region's banks - but growth is still high relative to world output levels and foreign direct investment into the region shows no sign of abating. With low growth in their own economies, European investors are ploughing ahead with allocations to Latin American countries. They have increased their share of investment compared with the US and appear more enthusiastic than ever about the region. This flies in the face of gloomy predictions

Carlos Appelgren Balbontin, Ambassador of the Mission of Chile to the EU, argues for closer EU-Latin America trade co-operation that Europe is pulling back from foreign investments in the wake of the crisis. It remains to be seen whether Europe can sustain its partnerships and investments in Latin American amid biting austerity packages and the worst economic crisis for a generation. If it pulls back, Asian countries will surely fill the breach and forge relationships that could set back Europe's ambitions in the region.

Region still buoyant, huge investment flows

European investment in Latin America and trade flows continue to increase year after year. As João Aguiar Machado, Chief Negotiator for EU-Mercosur trade negotiations and European Commission Deputy Director for Trade, said: "Foreign direct investment in Latin America in recent years has increased by considerably more than to the world as a whole. In 2011, FDI from Europe to Latin America increased by 31% while the increase to the world was 17%.

"We count on the incoming presidency of Mercosur by Brazil to push this negotiation forward, but it is complex and we won't make any predictions."

João Aguiar Machado, Chief Negotiator for EU-Mercosur trade negotiations and European Commission Deputy Director for Trade

"You hear a lot of concern that Europe is losing out to China, which is a major competitor. But we don't see this happening. In trade flows, for instance, the EU has maintained its share at 13%-15%. Meanwhile, the US share has decreased from 55% to 35%. That's a big dent in their share."

A number of countries across the continent are driving this growth in trade and FDI, with Brazil at the forefront. With its young population of about 200m people, a strong industrial base and entrenched democratic values, it is often first port of call for FDI, according to Gutemberg Uchôa, General Manager for Investments at Apex-Brazil.

“The recent crisis affecting Europe and the world has also affected us but we have promoted aggressive policies to combat the effects of the crisis and promote economic development.”

Gutemberg Uchôa, General Manager for Investments at Apex-Brazil

In 2011, Brazil received $67bn of FDI and while international growth rates have been negative since the financial crisis, Brazil’s GDP is growing by 7.5% a year, the highest rate since the 1980s, he noted. “We have a very solid, consolidated financial system with strong financial institutions,” he said. “These are important to promote trust and confidence. The recent crisis affecting Europe and the world has also affected us but we have promoted aggressive policies to combat the effects of the crisis and promote economic development. Monetary policy is proactively expansionist.”

This should help to keep driving the growth which has led 24m Brazilians to be lifted from poverty in the last seven years alone. Now 27m are in the ABC category. Seeing this wealth creation, European companies are investing fast and are injecting £30bn into the Brazilian economy every year. Mr Uchôa stated: “The uncertainties in Europe may represent a window of opportunity for stronger co-operation - we believe that there is a new opportunity to promote business between the EU and Brazil.”

Impact of the Eurozone crisis is limited

The crisis in Europe has not led to a standstill in the relationship between Europe and Latin America. Far from it, said Giles Merritt, Secretary General of *Friends of Europe* and Co-Moderator of the summit. “Latin America seems recession proof. Not entirely, but certainly compared with Europe and the US. Even the growth in Asia, particularly China, has been somewhat flattening.”

The fact that European trade and investment is also forging ahead tells us two things, Merritt said. First, European businesses are clearly attracted by Latin

America's booming economic activity. "But it also tells us we should be careful about what the Eurozone crisis means," Merritt said. "It is not bringing economic activity to a halt. It is very alarming that everyone seems to be reporting that the sovereign debt crisis has brought Europe to a standstill. It hasn't."

"Everyone is looking East to China and forgetting about Latin America, which is undoubtedly the continent that has been most impressive not only in economic terms but in political terms too."

Pierre Vimont, Executive Secretary General at the European External Action Service (EEAS)

Even though Latin America's growth has slowed down from 6-7% a year ago to 4% this year, the EU is still increasing both trade and FDI in the region, emphasised Pierre Vimont, Executive Secretary General at the European External Action Service (EEAS)."The whole story between Latin America and the EU is a success story we don't talk about enough," he said. "Everyone is looking East to China and forgetting about Latin America, which is undoubtedly the continent that has been most impressive not only in economic terms but in political terms too."

"The EU is undergoing the biggest political and economic crisis since its creation. Nevertheless, the EU is a success story."

José Ignacio Salafranca Sánchez-Neyra MEP, Chairman of the Delegation to the Euro-Latin American Parliamentary Assembly

Politics are likely to be as important as economics at this critical moment of change in the world's political and economic dimension. José Ignacio Salafranca Sánchez-Neyra, MEP and Chairman of the Delegation to the Euro-Latin American Parliamentary Assembly, insisted that political actors will be as influential as economic actors in the EU-Latin American relationship, at least over the medium term. "The most important mechanism to provide for the promotion of the relationship is to increase the political will," he said. "The EU is undergoing the biggest political and economic crisis since its creation. Nevertheless, the EU is a success story. It has a market of 500m people and 300m people with the same currency, and high welfare indicators. It is the biggest single bloc for importing goods and services. Aid is three times what the US provides. So in spite of the crisis, the EU is still an important power."

Factors that deepen the relationship

There are a number of regions and economic blocs that are competing to partner with South America. The ties with Europe are particularly strong because of the depth of European commitment and the cultural linkages. Mario Cimoli, Director at UN ECLAC, highlighted the benefits Europe brings to the region's economy and citizens. "Europe invests not only in M&A but also in greenfield projects," he said. "The EU provides more R&D compared with other countries, particularly to Brazil. This investment creates employment, production chains and the promotion of SMEs. European investment is very important and is the most diversified of all foreign investment." In sectors such as manufacturing, telecoms and banking, more input and integration is still sought though.

"The EU provides more R&D compared with other countries, particularly to Brazil. This investment creates employment, production chains and the promotion of SMEs."

Mario Cimoli, Director at UN ECLAC

The linkages are stronger and more diverse than merely trade and FDI. Vimont underlined: "It is not just about business. It is about population too. Italy, Spain, and France have sent a lot of their people to Latin America. Many enterprises have crossed the ocean to work there and not just for profits. There is a focus on research and development, social responsibility, on addressing the social sector to help with major issues such as inequality."

This integration of human capital is only likely to speed up as a result of booming economies in Latin America and retrenchment in Europe. "Some of the countries in Europe are under great stress and we are seeing emigration out of Europe starting again," Vimont noted. "So Latin America could once again become a continent that could attract new citizens. We are only at start of this process but it will be interesting to see how it goes."

Seeking channels for improved co-operation

While the relationship has been growing and deepening for many years, there is always a danger that it will lose its momentum. It was generally agreed at the summit that Europe needs to proactively consider how it can play a part in the continuing development of a new, self-confident Latin America.

The first proposal is to focus on boosting SMEs, which are the lifeblood of any economy. Vittorio Tonutti, Acting Head of Unit, EU policies, Regional Programmes Latin America and Caribbean at the Directorate General for Development and Cooperation - EuropeAid (DEVCO), said: "The key is to boost social cohesion by supporting SMEs in their efforts to expand to international level by increasing the flow of information and knowledge with counterparts."

"The key is to boost social cohesion by supporting SMEs in their efforts to expand to international level by increasing the flow of information and knowledge with counterparts."

Vittorio Tonutti, Acting Head of Unit, EU policies, Regional Programmes Latin America and Caribbean at the Directorate General for Development and Cooperation - EuropeAid (DEVCO)

A recent survey conducted by the Commission showed that by mid-2011 the programme had directly benefited almost 30,000 companies, he added.

However, there is now a need to change the design of aid programmes, making better use of aid by allocating more of it to high priority and long-term projects.

Since 2011, the programme has focused on three main priorities:
1. Enhancing or redesigning services to improve SMEs' competitiveness.
2. Ensuring policies have a positive impact on SMEs at a regional level as well as
3. Creating interaction between business organisations and networks of institutions in Latin America, while forging alliances with similar European networks.

There is also a need to update existing trade and political relationships between the EU and Latin America to reflect the fast development of the region. "We still have the trade agreements of a former generation," said Vimont. "We need to start looking at a new generation of agreements that deal with services – a sector where member states have invested a lot. Nearly two-thirds of investment in Latin America is now in services. Trade agreements should be upgraded to take account of that reality."

"We have to discuss with countries such as Mexico, Argentina, Brazil and Colombia the main issues that the international community is facing. Brazil wants to be part of the international community with regards to the Middle East, Syria and Iran. We need to develop a political dialogue so they feel part of a strong relationship between the EU and Latin America," Vimont added.

Progress on some agreements is slow

A great many trade and investment agreements have been signed between the EU and Latin America. In the week of the summit alone, agreements were being signed with Colombia, Peru and a number of central American countries. These agreements are subject to ratification by the European Parliament later this year.

However, perhaps the most important negotiation – with Mercosur – is being frustrated by concerns on both sides. "Mercosur is the big prize," asserted Machado. "But it also involves the most difficult negotiations." Concerns relate to the protection of agriculture by the EU members and to industry on the part of Latin American countries. "We count on the incoming presidency of Mercosur by Brazil to push this negotiation forward," said Machado. "We expect in the next six months the Brazil leadership will push it forward, but it is complex and we won't make any predictions."

It was unfortunate that protectionism was holding up the Mercosur process, said Arnaldo Abruzzini, co-moderator of the summit and Secretary General of EUROCHAMBRES. “If you want to invest you need the political and business will, but also willingness on the part of recipients as well.”

“It is difficult to engage in a trade negotiation when at the same time a country is adopting protectionist measures, it goes against the very grain of the purpose of a trade negotiations”, added Aguiar Machado. “These policies obviously reflect certain policy choices that are not in tune with a negotiation that aims to liberalize trade. They are not sustainable over time”.

Protectionism is not a simple issue, of course. Some discussants believed that Europe is blocking access to its markets from other regions by not stimulating demand and creating access for the importation of goods and services.

Several hundred observers attended the Policy Summit on EU-Latin America investment relations

"Some economies have been able to develop thanks to their internal markets and expansionist policies for new investment, new companies and new employment," argued Cimoli. "Meanwhile, another part of the world is trying to resolve its pile of debt with restrictive policies that restrain the possibility of new jobs and so on. So let's have no rhetoric and let's not try to highlight blame. If we don't realise that each context is different, we will lose time in negotiations."

Upgrading social policies, addressing inequality

As well as politics and economics, the two regions need to focus more on a third critical development issue: inequality.

"At the risk of raining on the parade, there remain huge gaps between rich and poor in Latin America," Merritt noted. "The region is sucking in technology in its centre and not transferring it outward. There is an awfully long way to go before most Latin American countries can even aspire to the social development, welfare and political stability that most Europeans take for granted. So we shouldn't get too carried away by economic progress. We Europeans still have a lot to do to help Latin American countries to develop and enjoy the same living standards as we do here."

Part of the answer may be to rebalance aid to where it is needed most. In this way, the countries with the greatest equality gaps received most aid. This idea, though, is controversial because some regions will receive less direct aid. "There is clearly a lot of poverty in these countries and strong social divisions," noted Vimont. "But in the last decade more than 70m people have come out of poverty. We still have a lot more work to do."

The EEAS has launched programmes to address social issues and private enterprise is also looking at the issue to ensure stability. The programmes differentiate between countries in the region, rather than treating the region as homogenous. Vimont said: "There has been strong economic progress in some countries in the middle income range so we have to adapt financial instruments to this reality." But change should not be brutal, but gradual, taking into account the social, political and economic situation of each country.

LATIN AMERICA'S DYNAMIC MARKETPLACE

One of the biggest challenges for Latin America is to become more self-sustaining. For this to happen, volumes of trade between each of the countries must increase and there will have to be greater co-operation and agreement, including enhanced formal and informal networks. Mercosur has seen cross-border trade increase tenfold between member countries in less than two decades, an average annual growth rate of 15 per cent. Nevertheless, major differences remain between national marketplaces. Can key players, like pan-regional organisations and SMEs facilitate technology and knowledge transfer and help to create more convergence?

SME sector creating bottom-up growth

SMEs are the key to the process of sustainable growth. To some extent, the development of SMEs is taking place within the region, without external help or co-ordination. "I have been involved my whole life in promoting small companies," said Fanny de Estrada, Director of Competitiveness of the Guatemalan Association of Exporters (AGEXPORT). "Sometimes we underestimate the capacity that many people have to do things. In Latin America and Central America we have a high entrepreneurship rate because people always find a way to progress."

> "Sometimes we underestimate the capacity that many people have to do things. In Latin America and Central America we have a high entrepreneurship rate because people always find a way to progress."
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> Fanny de Estrada, Director of Competitiveness of the Guatemalan Association of Exporters (AGEXPORT)

AGEXPORT has helped hundreds of thousands of small producers, mainly in rural areas, to find markets, sometimes by pooling their products. The sectors range from agriculture to tourism, and from decorations for homes to gourmet fruit and vegetables. The organisation supports each company for between 18 months and three years, putting them in contact with potential clients.

"We know where buyers are and we get buyers to specify what they want," continued Estrada. "Through our support programmes, we take them to spheres where the deals are made. If they are selling flowers or vegetables or fruit we need to go to where deals are made. They can travel and be empowered."

Family-owned firms also require support

Further up the value chain, there are many family-owned companies that have existed for many years and require assistance to reach the next level and internationalise. Víctor Esquivel, Board Member and Partner in Charge of Advisory, KPMG (Mexico), noted that family-owned companies provide about 95% of employment in Mexico. "So there is a rich entrepreneurial base that requires not only further funding, but technologies and processes to institutionalise growth and corporate governance," he said.

He highlighted a growing pool of "multi-Latinas", companies that invest outside their national borders, embarking on a path leading to a regional then global presence. Many of these require venture capital from Europe and other regions with investment potential.

"Mexico has more than 40 trade agreements and is very export-oriented. Mexico's exports are more than 30% of GDP and over 60% of these are manufactures rather than commodities."

Víctor Esquivel, Board Member and Partner in Charge of Advisory, KPMG (Mexico)

"We have seen an increase in private equity houses coming in to the region," Esquivel said. "They are helping family-owned businesses to support their business plans in conjunction with pension funds and local banks. It is a smart way for getting knowledge transfer."

International companies add cohesion and networks

Multinational companies are an important part of the development matrix. They transfer technology and resources to the local region while benefiting from its dynamic population.

Jose Maria Sanz-Magallón, Chief Executive Officer of Telefónica International USA, explained: “We arrived in Latin America in the 1990s when the governments of Argentina, Chile, Peru etc. started a period of liberalising their operators. Our expansion was shy to start with, but we now have more than 200m clients, and we are the biggest private sector investor in the region. In terms of infrastructure, we have a network of optic fibre in the region that would go five times around the world.”

“There is clear potential regarding future consumption in the region. In a few years there will be more university students here than in the US.”

Jose Maria Sanz-Magallón, Chief Executive Officer of Telefónica International USA

The attraction for Telefónica is the growth dynamic, with the population of Latin America increasing by 70m in the last 10 years. For its business, the fact that the average age is just 29 (compared to 43 in Europe) is critical. “There is clear potential regarding future consumption in the region,” Sanz-Magallón continued. “In a few years there will be more university students here than in the US.”

Importantly, in the next three to four years the growth of internet traffic will exceed the world average. “Brazil, for one, is not just a country of the future – it is the country of the present and future,” he concluded.

Argentina rediscovers its dynamism

Argentina has long been a favoured destination for companies seeking to expand in the region. However, the growth path of the country was set back by the default on its international obligations a decade ago. It is starting to re-emerge, giving a boost to the whole region.

"We have 2,200 subsidiaries of foreign companies in Argentina now. We welcome investment to improve access to third-party markets and to improve value chains."

Aldo Ferrer, Ambassador of Argentina to France

Argentina recovered using its own resources in the absence of access to foreign capital, said Aldo Ferrer, Ambassador of Argentina to France. The Argentinian economy has grown at 7-8% per cent since 2002 and external trade has doubled. In the last year alone, imports have risen by 30%. He said: "We have alleviated the social tensions which were severe in the time of the crisis when 50% of our population was below poverty level. It is now just 6-7%. In the crisis, unemployment rose to 20%, but is now at just 6%. This all favours foreign capital, Mr Ferrer believed. "We have 2,200 subsidiaries of foreign companies in Argentina now. We welcome investment to improve access to third-party markets and to improve value chains."

Governments should play more active role in regionalisation

Internal market dynamics could be enhanced if politicians made greater efforts to link the region and started trading as a bloc, as the European Union has done for some time. Vibeke Rovsing Lauritzen, Representative of the Danish EU Presidency and Under-Secretary of State for the Trade Council of the Ministry of Foreign Affairs, Denmark, set out the case for the creation of a regional market. "Integration has been slow and mainly driven by the private sector," she said. "Governments could play a more active role in trade liberalisation. We need to ensure a good investment climate by strengthening institutions and legislation and creating a stable environment for investors."

This would attract more SMEs, which have few resources and rely on good infrastructure being readily available. "SMEs like to do business in Chile, for example, because it is easy to do business there," added Ms Lauritzen. "For SMEs it is especially important that it is easy to do business."

Not everyone is waiting for regional co-operation, however. Some of the bigger economies are pursuing bilateral agreements. Esquivel pointed out: "Mexico has more than 40 trade agreements and is very export-oriented. Mexico's exports are more than 30% of GDP and over 60% of these are manufactures rather than commodities."

"Governments could play a more active role in trade liberalisation. We need to ensure a good investment climate by strengthening institutions and legislation and creating a stable environment for investors."

Vibeke Rovsing Lauritzen, Representative of the Danish EU Presidency and Under-Secretary of State for the Trade Council of the Ministry of Foreign Affairs, Denmark

Some caution was expressed on the importance of the trade agreements. Abruzzini argued that private capital flows to markets wherever demand exists, regardless of official agreements. "I don't say free trade agreements are not important at all, but they are not necessarily the first reason why businesses go to Latin America,"

Abruzzini said. “Investment is already happening in countries where we have no trade agreements. They are only important when they add facility.”

Level of trust must go up

Economic factors are important but not necessarily sufficient. For Latin American economies to remain dynamic, they must pay heed to factors such as the rule of law, social inequalities and security. “Providers give investment to countries that are beset the ability to integrate into global markets,” said Carlos Eduardo Mena, Senior Advisor at EuroChile.

“Investment needs to be based on values and common ethics. Trust is a key point and goes beyond what the law provides.”

Carlos Eduardo Mena, Senior Advisor at EuroChile

At the same time, investment has to be made in good faith. He added: “They need to invest for sustainable development that takes into account social responsibility, and not as philanthropy or marketing. It needs to be based on values and common ethics. Trust is a key point and goes beyond what the law provides.”

Speakers and moderators continue the debate informally at the lunch interval

Foreign direct Investment in Latin America and the Caribbean 2011

This report provides a quantitative overview of foreign direct investment (FDI) inflows and examines these capital flows by destination, economic sector and geographical area of origin. It describes the pattern of FDI originating in the countries of Latin America and the Caribbean, focusing on the international expansion under way at some of the region's major companies, the so-called trans-Latins. The main theme of the report is the operations of European companies in Latin America and the Caribbean. Because the European Union economic bloc is the leading origin of inward FDI in the region, the main characteristics of European FDI are reviewed, identifying the leading investor countries and their preferred destination economies and sectors in Latin America and the Caribbean.

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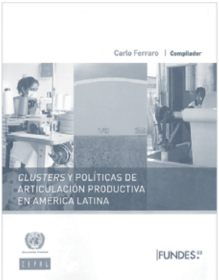

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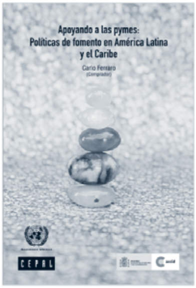

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OPPORTUNITIES IN TOMORROW'S RESOURCE-SCARCE WORLD

Huge natural resources can provide considerable impetus for any economy. But resources don't last forever and in the past they have been squandered in various parts of the globe. Latin America is seeking to avoid this fate by trying to add value to its commodity-led markets. Europe, with its vast experience of service provision, has a crucial part to play in this, and Latin America appears to be enthusiastically welcoming the knowledge it can provide.

"A high proportion of Latin American exports are raw materials or manufactures with low added value," noted Merritt. "Brazil broke into the medium haul market with its own airplanes. But for decades before that Brazilians were protectionist and kept out technology. I hope Cristina Fernandez understands this point."

China is the world's workshop but only keeps 15c in each dollar of its manufactures because the technology belongs to Europeans or Americans. "Latin American policymakers need to think about this," Merritt said.

Jose Maria Sanz-Magallón, Chief Executive Officer of Telefónica International USA, engages with a participant during the lunch break

Moving away from commodities reliance

The so-called commodities supercycle lasted for the whole of the last decade, predicated mainly on the industrialisation of China. But believing this is the panacea for all development challenges is probably misguided.

"We have high specialisation in natural resources and that makes us vulnerable to China's growth and the price of commodities."

Christian Daude, Head of the Americas Desk at the Development Centre of the Organisation for Economic Co-operation and Development (OECD)

"The prices of commodities might stay high for the next 10-20 years," stated Christian Daude, Head of the Americas Desk at the Development Centre of the Organisation for Economic Co-operation and Development (OECD). "It is an open window of opportunity for the region but we have got to think beyond it." If the supercycle ends, demand for commodities such as copper may fall, causing huge readjustments in prices. "The old challenges remain," said Daude. "We have high specialisation in natural resources and that makes us vulnerable to China's growth and the price of commodities."

"Our economies are complementary: Latin American countries want to move up the value chain, while Europe sees the dynamism of Latin America as a strategic base for products and services."

Karel De Gucht, EU Commissioner for Trade

Europe is recognising this and is already focusing on value-added investments in Latin America. Karel De Gucht, EU Commissioner for Trade, noted that Europe provides two-thirds of all R&D in Latin America. "Europe does not look at Latin America just as a continent rich in commodities, the relationship is deeper than that," he insisted. "Our economies are complementary: Latin

American countries want to move up the value chain, while Europe sees the dynamism of Latin America as a strategic base for products and services."

Brazil looks to the future

Brazil is spending huge resources and inviting further capital from foreign investors to add value to its existing oil and gas industries and to develop its growing renewable energy industry. Carlos Mariani Bittencourt, Director of the National Confederation of Industry and Co-Chairman of the European Union Mercosur Business Forum, said its aim is to increase investment in renewable energy from the current level of 1% of GDP to 2-3%. This will enable the sector to grow by 60% between 2011-2020.

> "Thanks to the availability of the energy sector we can help other industries to come to Brazil. It ensures we have a brilliant future."

Carlos Mariani Bittencourt, Director of the National Confederation of Industry (CNI) and Co-Chairman of the European Union Mercosur Business Forum

"The strategy is to have better energy efficiency and to focus on renewable and electrical energy," Bittencourt said. "We have second-highest potential in the world in terms of hydroelectric production after China." In addition, only 7% of the potential in Amazonia has yet been exploited.

In hydro-electric energy, Brazil has only 34% of its reserves in operation. This compares to Germany's 83% and France's 100%. So there is room for considerable expansion of hydro-electric energy. The expansion will take place through a bid process to which all companies in all countries are invited. "We have total openness in all sectors," asserted Bittencourt. From 2005-2011, 503 new projects were undertaken in the renewable energy sector in Brazil, creating 23,000 new MW of energy, or 71% of all energy produced. From 2013-2017 another 37,000 MW will come on stream, mainly electrical. Wind energy will account for 7-10% of the total, and 76% of all energy will be from renewable sources by 2020.

In addition, by 2016, 3.3m barrels a day of fine and light oil will be produced, similar to the quality of oil produced by Saudi Arabia. Bittencourt added: "Thanks to the availability of these energies we can help other industries to come to Brazil. It ensures we have a brilliant future."

The opportunities for foreign entities to add value are considerable. Constructing drills and platforms are one clear way. Bittencourt explained: "There are now 50 platforms operated by foreign businesses and 48 by Petrobras. The Norwegian government can thank us because they will operate most of the 53 new vessels being built in ship yards around the world to operate here."

From left: Co-moderators **Giles Merritt**, Secretary General of *Friends of Europe*, and **Arnaldo Abruzzini**, Secretary General of EUROCHAMBRES

Chile invests in technology transfer

Chile is starting to use the proceeds from its vast copper and lithium resources to create more value throughout its economy. Zsuzsa Nyitrai, Advisor to the Minister in International Affairs of the Ministry of Economy, Development and Tourism, Chile, told the summit: "We are looking for sustainable and high-tech investments that are environmentally friendly, that can add value and promote technology transfer. We want Chile to be used as a platform for development to the wider Latin American region and to the Asian region. We now have 22 commercial agreements allowing access to 59 countries."

> "We are looking for sustainable and high-tech investments that are environmentally friendly, that can add value. We want Chile to be used as a platform for development to the wider Latin American region and to Asia."
>
> Zsuzsa Nyitrai, Advisor to the Minister in International Affairs of the Ministry of Economy, Development and Tourism, Chile

Mining is 19% of GDP in Chile and the country expects $91bn worth of investment projects in this sector over the next eight years. "Chile does not see the mining industry as just raw materials," Nyitrai continued, "they can be exhausted in the future. Chile uses the income from copper exports to reinvest in science and technology in order to convert Chile into a regional hub of innovation, which is one of the most important goals of the Ministry of Economy." During the previous and current year Chile celebrated the establishment of three European centres of excellence, including Inria, the biggest computer sciences centre from France, Fraunhofer Institute from Germany in the field of biotechnology and CSIRO, Australian Centre of Excellence to work on projects related to the mining sector.

Nyitrai said: "They have been selected through a concours and co-financed by the Chilean government for transfer technology between universities and the private sector. This forms part of the "3I concept" – Innovation, Investigation and Industry – that can contribute to convert the country into the first developed country in the Latin American region by the year of 2020.

Lithium, which is used to make batteries for the fast-growing electric car sector, will be a big part of this growth. "Production of batteries for electric cars will be 12 times as high as it is today in 10 years," predicted Nyitrai. "Chile is the biggest producer of Lithium but up until now this opportunity was only exploited by two companies, our government is calling for public bidding process for the exploitation of Lithium where national and international companies can both participate."

Finally, in energy, Chile seeks to double its energy provision during this decade and aims to reach 20% renewable sources by 2020. There are many areas of potential investment, namely the geothermal, solar and hydroelectric sectors, where the country offers highly favourable natural conditions.

If Europe doesn't add value, others will

European institutions and companies should focus on value-added services if they are to maintain relationships with Latin America and not lose out to fast-growing Asian competitors.

"If Europe does not do it, other countries will. If you get on a plane in Latin America, a big percentage are Chinese flying first class they are ready to invest."

Juan Francisco Mejía Betancourt, Representative of the Asociación Industrial Latino Americana and Director of the AL-Invest Programme, Venezuela

"We require consultancy services to develop processes, to intervene in the middle of the value chain - we need the transfer of technology and innovation," said Juan Francisco Mejía Betancourt, Representative of the "Asociación Industrial Latino Americana" and Director of the AL-Invest Programme, Venezuela. “This should come from regions such as Europe. If Europe does not do it, other countries will. If you get on a plane in Latin America, a big percentage are Chinese flying first class - they are ready to invest.”

Where’s the infrastructure?

For value to be added to raw materials and for investors to want to add this value, infrastructure is critical. However, in some respects it is lacking.

“There is a problem for companies if they want efficiency but there is low-quality infrastructure,” warned Bittencourt. “It makes it expensive to export to and from our ports if train services don’t work well and roads are in bad condition.”

The problem with the ports is that many are under government control while others have been built and are run with private money. “The efficiency of a port that is under the administration of the government is not comparable with the private sector,” he added. “We are trying to push for more and more public-private partnerships for transport infrastructure. The lack of this so far, damages productivity which is a serious problem.”

Poor roads and ports are a crucial issue, Merritt agreed. “If you can’t get things in and out you can’t get started,” he said. “It is all very ad-hoc now. I didn’t hear any suggestion today that Latin American countries are working together on a resource development strategy. There is an enormous opportunity for European technology to develop expertise in Latin America, but we really need to get our acts together on both sides of the south Atlantic.”

As a final thought, Daude noted that many countries without natural resources have become wealthy while others with natural resources have remained poor. So the quality of institutions and political will were critical success elements.

“It is not automatic that countries do well with natural resources,” said Daude. “You have got to work on it. In Switzerland, pharmaceutical industries and financial services have developed strongly due to innovation and strong institution. So action is needed at the country level if you want to add value. Europe is relatively poor in natural resources but has created a lot of wealth through knowledge. So it is an interesting partner for Latin American countries.”

ANNEX I - Programme

09.30 – 10.00 *Welcome coffee and registration of participants*

SESSION I WHY EUROPEAN INVESTMENT
10.00 – 11.30 IS STILL SO BUOYANT

In spite of the global slowdown and the eurozone's sovereign debt woes, European investors are still being attracted in record numbers by Latin American economies' booming performances – investment from EU countries' reached €385bn in 2010, up substantially from €320bn the year before. After the US, Europe is Latin America's major trading partner, with total trade now topping €200bn yearly, well ahead of China's €130bn. But competition for the choicest trade and investment opportunities in the region is also getting fiercer, with Asian businesses – and Chinese ones especially – stepping up their presence in Latin America. What are the implications for European investors of EU governments' austerity policies, with the possibility that the banking and financial services sectors may be starved of liquidity and unable to extend as much credit to companies investing and trading with Latin America?

SPEAKERS:

Pierre Vimont
Executive Secretary General at the European External Action Service (EEAS)

João Aguiar Machado
Chief Negotiator for EU-Mercosur trade negotiations and European Commission Deputy Director General for Trade

Gutemberg Uchôa,
General Manager for Investments at Apex-Brazil

José Ignacio Salafranca Sánchez-Neyra MEP
Chairman of the European Parliament Delegation to the Euro-Latin American Parliamentary Assembly

Mario Cimoli
Director of the Division of Production, Productivity and Management of the United Nations Economic Commission for Latin America and the Caribbean (UN ECLAC)

Co-moderated by Giles Merritt, Secretary General of *Friends of Europe* and Arnaldo Abruzzini, Secretary General of EUROCHAMBRES

11.30 – 12.00 Coffee break

SESSION II LATIN AMERICA'S DYNAMIC MARKETPLACE

12.00 – 13.30

The doldrum years that reflected Latin American countries' failure to construct an effective internal market now seem firmly behind the region, even if accidental trade clashes still make headlines. The dynamic effects of Mercosur have seen cross-border trade between its member countries increase tenfold in less than two decades, representing an average accumulated annual growth rate of 15%. Overall economic performance has also defied the global slowdown, with the Latin American and Caribbean economies growing by almost 6% in 2010 and some 4.4% in 2011. Unlike the more saturated markets of industrialised Western nations, demand in Latin America in terms both of infrastructural development and poverty alleviation is set to remain very strong. But there are nevertheless major differences between the region's national marketplaces, with Brazil, Mexico and Argentina the leading trade and investment magnets. How should internationalised SMEs assess the opportunities available in the different countries of Latin America, and the prospects for the coming decades? Can EU-Latin American commercial partnerships and joint ventures facilitate technology transfer, innovation and sustainable economic development?

Speakers:

Fanny de Estrada
Director of Competitiveness of the Guatemalan Association of Exporters (AGEXPORT)

Víctor Esquivel
Board Member and Partner in Charge of Advisory, KPMG (Mexico)

Jose Maria Sanz-Magallón
Chief Executive Officer of Telefónica International USA

Aldo Ferrer
Ambassador of Argentina to France

Vibeke Rovsing Lauritzen
Representative of the Danish EU Presidency and Under-Secretary of State for the Trade Council of the Ministry of Foreign Affairs, Denmark

Carlos Eduardo Mena
Senior Advisor at EuroChile

Co-moderated by **Giles Merritt**, Secretary General of *Friends of Europe* and **Arnaldo Abruzzini**, Secretary General of EUROCHAMBRES

13.30 – 14.30 Networking lunch

SESSION III — OPPORTUNITIES IN TOMORROW'S RESOURCE-SCARCE WORLD

14.00 – 15.30

From oil and gas to increasingly sought-after minerals like lithium, and from hydro-electric power to almost limitless bio-energy sources, Latin American countries' natural resources are the envy of many and the investment successes of a comparative few. The key to developing these resources will clearly be investors' ability and willingness to add value to raw materials thereby ensuring economic diversification; at present half of Latin America's exports are either primary goods or manufactures based on natural resources. Favoured projects will therefore be those that capitalize on Latin America's natural wealth to create a much more sophisticated industrial base. What are the strategic production industries that European and Latin American internationalised SMEs with proven expertise should be identifying for their 21st Century growth strategies?

VIDEO MESSAGE:

Karel De Gucht
EU Commissioner for Trade

SPEAKERS:

Christian Daude
Head of the Americas Desk at the Development Centre of the Organisation for Economic Co-operation and Development (OECD)

Zsuzsa Nyitrai
Advisor to the Minister in International Affairs of the Ministry of Economy, Development and Tourism, Chile

Carlos Mariani Bittencourt
Director of the Brazilian National Confederation of Industry (CNI) and Co-Chairman of the European Union Mercosur Business Forum

Juan Francisco Mejía Betancourt
Representative of the Asociación Industrial Latino Americana (Latin American Industrialists Association) and Director of the AL-Invest IV Programme, Venezuela

Co-moderated by Giles Merritt, Secretary General of *Friends of Europe* and Arnaldo Abruzzini, Secretary General of EUROCHAMBRES

16.00 *End of summit*


Special section : Water
EUROCHAMBRES
INVESTING IN LATIN AMERICA'S BOOM
CAN ITS "JAGUARS" CATCH UP WITH ASIA'S "TIGERS"?

ANNEX II - List of Participants

Carlos Eduardo Abijaodi, Director of Industrial Development, Brazilian National Confederation of Industry (CNI), Brazil
Marta Abrantes, Administrator, European Commission: Directorate General for Energy
Arnaldo Abruzzini, Secretary General, Association of European Chambers of Commerce & Industry (EUROCHAMBRES)
Alfredo Acebal, Director, Head of Brussels Office, Telefónica, EU Liaison Office
João Aguiar Machado, Deputy Director General and Chief Negotiator for the EU-Mercosur trade negotiations, European Commission: Directorate General for Trade
Angel Angelidis, Former European Parliament Advisor for Agrifood and Forestry,
Carlos Appelgren Balbontin, Ambassador, Mission of Chile to the EU
Carmen-Rosa Arias, First Secretary, Mission of Peru to EU
Léa Auffret, Chargée de Mission, Bureau Européen de l'Agriculture Française
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Alejandra Ayuso, Counselor and Chargé d'Affaires a.i., Mission of Argentina to the EU
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Andrew Bradley, Director, International Institute for Democracy and Electoral Assistance (IDEA), Sweden
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Lorenzo Brescia, International Financial Institutions coordinator, European Investment Bank (EIB)
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Walter Cancela, Ambassador, Mission of Uruguay to the EU
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Michael Rupp, Policy Officer, European Commission: Directorate General for Enlargement
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José Ignacio Salafranca Sánchez-Neyra, Chairman, European Parliament: Delegation to the Euro-Latin American Parliamentary Assembly

Alejandro Saldívar von Wunthenau, Benelux Director, ProMexico Trade and Investment
Juan Manuel Sánchez, Operations Manager, Asociacion de Productores y Exportadores de Nicaragua (APEN), Nicaragua
Toni Sandell, Policy Officer, Association of World Council of Churches-related Development Agencies (APRODEV)
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Peter D. Schellinck, Chairman, Schellter Strategy Consultants
José Antonio Segura, Counsellor, Embassy of Spain to Belgium
Veridiana Grotti Soárez, International Trade Coordinator, National Confederation of Industry, Brazil
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Teresa Talavera, Coordinator of International Development Cooperation, Instituto Andaluz de Tecnología (IAT), Spain
Raul Tavares, Manager, Federation of Industries of the State of Para, Brazil, Brazil
Bárbara Teixeira, Senior Project Manager, European Confederation of Junior Enterprises (JADE)
Ioana-Cristina Toma, Policy Officer, European Commission: Directorate General for Employment, Social Affairs and Inclusion
Xisca Tomàs, Journalist, Prestomedia, Belgique
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Pierre Vimont, Executive Secretary General, European External Action Service (EEAS)
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