



*2nd statement of Federal Republic of Brazil to the 2nd draft of Forum of 21st Century on
Global economic issues*

21st November 2010, Bratislava

The Federal Republic of Brazil would like to thank the Forum for the 21st Century for initiating the discussion and organizing the conference on global economic and ecologic issues. At the same time we express our full support towards solving the challenges occurring in the new global scenario. After analysis of the draft proposed by the Forum for the 21st century let us annotate it and include our suggestions as well. The Federal Republic of Brazil stresses that it supports all efforts to take part in making the global situation's performance more effective and that it sees the most important issues in assecuration of collective security in the 21st century.“

- Forum for the 21st Century calls for quick finalization of the Doha Development Round. With the agriculture sector being one of the most problematic issues on the worldwide scale as well as in the Doha Development Agenda, the Forum sees the earliest possible agreement highly essential. By the year 2015, the tariff restrictions on agricultural products import from the developing countries should be lifted so that even the countries not being in the WTO's Generalized System of Preferences will have the access to the world agricultural markets without the current disadvantages. Already benefiting from extensive subsidies, agricultural production from developed countries holds twice the advantage on the world markets. As the world food prices soar, the suspension of subsidies and removing tariff restrictions must be gradually adopted in order to stop the steep increase in food price levels that endangers the already troublesome access to nutrition in the poorest regions of the world. Such an action would provide developing countries with vital incomes to spur their progress and at the same time cheaper food in developed countries. Moreover, according to research from organizations such as OECD, suspension of subsidies would greatly contribute to increase the world's GNP output.





Besides withdrawing from using free market-deforming instruments, the Forum calls for research activities to be carried out by participating countries in order to identify new means of aid to the countries suffering from the lack of food. The Forum expects the reports to be presented by the end of year 2013. Until the policies resulting from the research are adopted, participating countries should direct the development aid into the technical assistance, mainly the irrigation facilities that will enable developing countries to raise their food sovereignty.

- **The opinion of Brazil**

The Federative Republic of Brazil believes that the Doha Round needs to be completed. Further liberalization of international trade comes from the need of economic security. From the point of an important defender of international trade liberalization the idea is to allow entrance of new partners into its market. Brazilian government understands competition among economic agents as one of the key components to relief poverty, reduce inflation and boost the domestic market. Brazil would support firstly implementation of the tariffs and subsidy reforms embedded in the draft texts developed to date, and the pocketing of the gains already substantially agreed.

Already in the year 2007 Brazil declared its intention to start granting a unique DFQF programme(Duty-Free and Quota-Free) market access to exports from 32 of the world poorest countries in early 2007 which was reaffirmed in December 2009, at the 7th WTO Ministerial Conference, where the Minister of External Relations, announced that, in line with the Hong Kong declaration, Brazil would grant duty-free-quota-free access for products from LDCs covering 80% of all tariff lines by mid-2010, which would be increased by 5% annually to cover all tariff lines by 2014. Hereby the policy makers of Brazil suppose this positive example to be followed by developed countries.

Brazil's agricultural sector has expanded strongly in recent years and the country has become the world's biggest producer and exporter of several foods as well as industrial commodities. The command of high-tech revolutionary means, allows a leading position from which the country is prepared to assist the development of poorer countries especially the region of Africa, in a variety of forms. Consequently Brazil suggests to launch an innovative model of trilateral cooperation between the U.S. Government (USG) and the Government of Brazil (GOB) providing assistance to third countries. The program will focus first on food security, institutional capacity building in Africa in the areas of plant selection, crop growing, crop harvesting, school food programs and institutional development as well as strengthening in regards to food-chain regulation development and enforcement to ensure the safety of the food chain. At all stages of the program, the recipient will work with representatives of the GOB to leverage Brazilian technical expertise. This program will include Brazilian capacity building for the implementation of food security programs.





Of the main imbalances present in the world economy, the Forum finds China's long-term trade surpluses and, on the other hand, US trade deficits the most pressing one. Yuan, China's national currency is still considerably undervalued compared to US dollar as well as other ones. Taking this into consideration, it is apparent that China's exports hold unfair advantage in the world trade. Moreover, the amount of Chinese monetary reserves in US dollars creates the unprecedented situation when the exchange rate of the main world reserve currency, that US dollar still remains, could be significantly influenced by the economic policy of China. Therefore, the Forum recommends that China, as well as other countries, namely Japan and South Korea; stop intervening in favour of keeping the exchange rates at artificially low levels and gradually level their present value with the real ones. This process should be finalized by the end of the year 2015 so that the domestic exporters will be given sufficient time for accommodation.

- **The opinion of Brazil**

The government of Brazil believes that the weakness of the dollar, and not of the Chinese currency, is becoming the main cause of global economic imbalances. The idea by rich countries to boost their exports via weaker currencies, could lead to unsustainable current account deficits in emerging economies. Brazil financial policy makers perceive the American monetary expansion, to be the biggest imbalance today. It is being used to fight lower growth and unemployment which is still high in the USA, furthermore weak dollar feeds the carry trade. Investors come to the United States to borrow cheap money to invest in Australia or other higher-yielding countries.

Brazil sees the necessity for the Group of 20 rich and developing countries to better coordinate their foreign exchange policies, or there is a perceived risk that each country will have to defend their own interests. Emerging countries should couple reserve accumulation policies with "direct control" of their currencies to stem the inflow of dollars.

Brazilian Finance Minister urged the United States to raise interest rates and allow the U.S. dollar to appreciate in order to combat global economic imbalances as well as it was recommended for China to let its currency strengthen to help the global economy.





With its value falling due to its long-term depreciation, the unique position of US dollar slowly but steadily deteriorates. The Forum proposes that the use of the International Monetary Fund reserve currency shall be augmented. The Forum recommends the SDR currency basket to be composed of five to six currencies based on the respective countries' share in the world trade as well as the amount of their currency reserves that would provide stability in the times of general monetary instability. Both these prerequisites would amount to 50% of SDR's value (based on the weighted average). At the same time, it should be revaluated every two years in order to reflect the economic reality with no currency being granted an automatic share. It is clear that even the augmented use of SDR cannot completely replace traditional currency reserves. Taking this into account, the Forum suggests that the currencies of regional economic leaders were to be used more on the intra-regional level. Besides diversifying monetary reserves themselves, this would lower foreign exchange losses.

- **The opinion of Brazil**

The fact that world economy is rapidly rising creates problems for a single-currency reserve system. Therefore Brazil agrees with the Forum 21st Century on Global economic issues that this causes the strong need for a stable, predictable and more diversified international monetary system. Furthermore as a member of the BRIC group, Federal Republic of Brazil would acknowledge the reality of global economy moving towards a system that supported multiple reserve currencies rather than just the dollar. Brazil could further boost the partial ratio of SDRs and the volume of currency reserves specified in accordance to the share of world trade, underscored that Brazil is endorsing the proposal that the composition of the basket should also reflect the role of commodities in the global economy. Brazil would promote the suggested layout of gold being a potential and possible participant. The price of gold has a negative correlation to the dollar. For this reason it could be beneficial to tie these two instruments into one, so that investors would feel secure. The importance of the SDRs as a part of a new currency system is as well underlined by the group's intentions to purchase SDR-denominated bonds issued by IMF.

As the examples from the past showed, countries' currencies, and thus countries themselves, can become victims to speculative capital originating from uncontrolled sources, such as hedge funds. As means of protection, the Forum advises countries to adopt legal provisions limiting the flow of their currencies. The amount of currency that could be bought and sold by a single investor, with the exception of national banks and Greenfield investments, should be restricted to 0.5% of a country's monetary base per month and 4% per year. This kind of precaution will prevent the speculative attacks on currencies and so protect countries' economies on the whole.





Similarly to the volume restriction of foreign exchange trade, the Forum calls for adoption of legal provisions in order to protect vulnerable countries against the outflow of speculative capital in form of portfolio investment. To ensure protection, the outflow should be restricted to 5% of country's GDP.

- **The opinion of Brazil**

Until the international financial crisis, short term capital was flowing into Brazil in large quantities attracted by the large interest rate, at nearly 9% per annum differential. Carry trade was very popular among international trade. Therefore as already stated, last year Brazil imposed a 2 percent financial tax on short-term fixed income investments but not on long-term as part of a strategy to reduce dollar inflows and curb the appreciation of the real, which strengthened more than 30 percent in 2009. Brazil recommends to increase central bank's daily intervention and that authorities should consider as well other measures to stem the currency's rally. In this manner Brazil would support the idea of a more restrictive attitude towards Greenfield investment and quota restriction in terms of sector investment. At the same time Brazil suggest to adjust the percentage share of GDP, individually according to the volumes of the investment in each country.

To counterbalance drawbacks caused by the "brain drain" phenomenon, the Forum recommends the adoption of measures that would guarantee the return of funds invested in education of individuals who do not contribute to the gross domestic product. As a possible solution, the Forum proposes using remittances to help the least developed countries in their progress. Remittances frequently represent the key component of income for people living in the least developed countries. On the other hand, gathering resources for the improvement or construction of infrastructure presents a difficult challenge for countries. Utilizing remittances as a source of funds provides a unique option to hasten the development. As income from remittances is mostly used for consumption and not supplementing much-needed investments. Imposing a 12% tax on them could be an adequate way to gather required financial resources. New funds under the supervision of the World Bank would be created to guarantee effective use of money, with each country being in possession of one. Funds could be used only for projects improving country's infrastructure (road network, construction of schools, sanitary facilities, research facilities etc.) that would create healthy and sustainable basis for future growth.

- **The opinion of Brazil**





[The IADB reports](#) that remittances to Latin America and the Caribbean are stabilizing. Remittances had dropped drastically last year, led by a [34% drop to Brazil](#). That drop was also due to the fact that the Brazilian economy did well last year. Although remittances represent only 0.21% of GDP, Brazil is an important remittance-receiving country in absolute terms. Consequently the country's policymakers would be supportive of the suggested plan to create a specialized fund to redeliver the financial resources invested in the education of individuals to the country of origin in another form as increase of aggregate consumption. As Brazil's individual income tax rates for 2010 are progressive, from 7.5% to 27.5%, the policymakers would suggest to keep the rate at the level of 7% or to adjust the set rate according to country and volume of remittances, an eventual factor of setting the remittance tax could be as well the level of education achieved, in relation higher educated professional equals higher income, therefore the tax burden could be increased. The government would like to emphasize the strict fiscal control that should be provided over the gained financial resources, to hinder corruption and inefficient reinvestment.

- Forum for the 21st Century recommends that, in the global dispute over the sources of energy, greater space is given to scientists who oppose pessimistic scenarios concerning the depletion of conventional sources of energy. Existing scientific studies, which question the pessimistic scenario accepted worldwide without contradicting voices being heard, provide us with a different perspective regarding the future use of energy resources. Using financial resources and scientific capacities to further improve efficiency of already existing facilities is substantial. Funding the development of alternative sources of energy should be done based on both environmental and economic arguments.
- The Forum suggests that the countries re-evaluate their spending on the economically ineffective energy sources and, by the end of the year 2012, prepare reports measuring the efficiency of the particular sources in their respective conditions. Based on these reports, the countries ought to ensure that the share of the most efficient energy source, except the ones producing greenhouse gases, will rise by at least 10% by the end of the year 2020. The Forum regards reopening the debate on the use of nuclear energy highly essential. To make nuclear energy even safer, creating a scientific team consisting of the world's best experts is advised to be done by the end of the year 2011 with its focus being to find environment-friendly way of disposal of the nuclear waste which remains one of the few negative sides to the nuclear energy.

- **The opinion of Brazil**

According to data from the Energy Research Company 90% of the energy generated in Brazil in 2009 came from renewable sources, primarily water 83.7%, biomass 5.9% and





nominally wind 0.3%. Transforming this natural potential into installed and production capacity requires overcoming a series of economic, technological, logistical and regulatory constraints. Therefore Brazil will support and increase in effort of scientific teams created to deliver expertise to rise the efficiency of technologies using renewable energy sources.

Brazil's acting president was expressing a supportive attitude towards future use of nuclear energy, for the main fact that from a technical standpoint, solar and wind energy are not real alternatives for a developing country. Nuclear energy provides about 3% of Brazil's electricity. Per capita electricity consumption in Brazil has grown strongly. As so, the need to produce and cover the demand is anticipated to increase accordingly.

Nuclear waste management is being considered as well and due to be chosen in 2011, and start operation in 2018. Two options are being considered: the construction of a repository exclusively for waste from Angra or a facility that would accept material from all nuclear and radioactive installations in Brazil. The final destination for high-level waste will depend on a future decision about fuel reprocessing. High-level wastes its storage and final location program is expected to begin operation in 2026. A proposed plan was due to be finished by 2009, and a prototype validated by 2013.

In terms of the search for more efficient sources of energy Brazil's mines and energy ministry has added two small hydropower plants and a thermal project to the government's special infrastructure development incentives program known as Reidi. Brazil has more than 20 thermoelectric plants, mostly gas-fired, that are switched on to balance out demand when water reservoirs run low during the dry season.

Consequently, based on the ongoing research and developing models, Brazil is prepared to support its partners on the way to improve their national energy supply models, in terms of providing schooling and training programs for professional, the leverage of technologies and know how.

Forum for the 21st Century concludes all the Federal Republic of Brazil problems offered for discussion and negotiations in the environmental section as global in scope. Therefore it is essential for them to be acted upon and that a document binding all participants would represent the outcomes of the conference. All the issues discussed should become part of the national development processes that are included in the national development strategies.

