

# AGENDA FOR JAPAN



*Brazilian National Confederation of Industry*

**THE FUTURE OF INDUSTRY**



# AGENDA FOR JAPAN

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# AGENDA FOR JAPAN



Brasília, 2021



*Brazilian National Confederation of Industry*

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# LETTER FROM THE CHAIRMAN OF CEBRAJ

The COVID-19 pandemic had serious effects in Brazil and other countries. Many uncertainties remain, and both national governments and private actors have an essential role to play in the fight to overcome this pandemic.

Aware of how serious is the risk of contracting the disease, companies need to continue their efforts to protect their employees and prevent the spread of the virus. It is essential to remain firm in preventive measures.

For us, members of the Brazil-Japan Business Council, the moment also requires talks with the governments of both countries and the commitment of all for a sustainable economic recovery post-crisis.

We can and should seek bolder goals for bilateral economic relations, advancing negotiations capable of re-establishing and expanding trade and investment flows.

It is in this context that we present you the Agenda for Japan, a document compiling the main proposals from the Brazilian private sector to strengthen our bilateral economic relations. May this difficult time also bring new opportunities to expand business and improve people's lives.

**Eduardo de Salles Bartolomeo**

CEO of Vale S.A

Chairman of the Brazilian Section of the Brazil-Japan Business Council

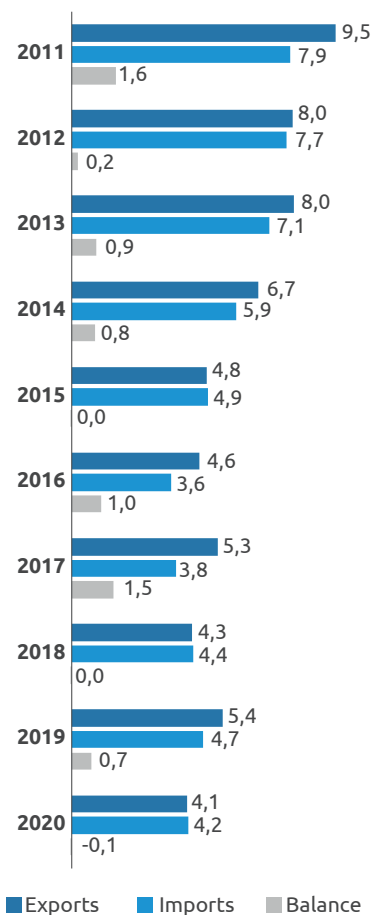


# 1 PROFILE OF TRADE RELATIONS



Japan was Brazil's seventh largest trading partner, accounting for 2.1% of total imports and exports in 2020.

**CHART 1 –** Brazil - Japan Trade Balance (US\$ billions)

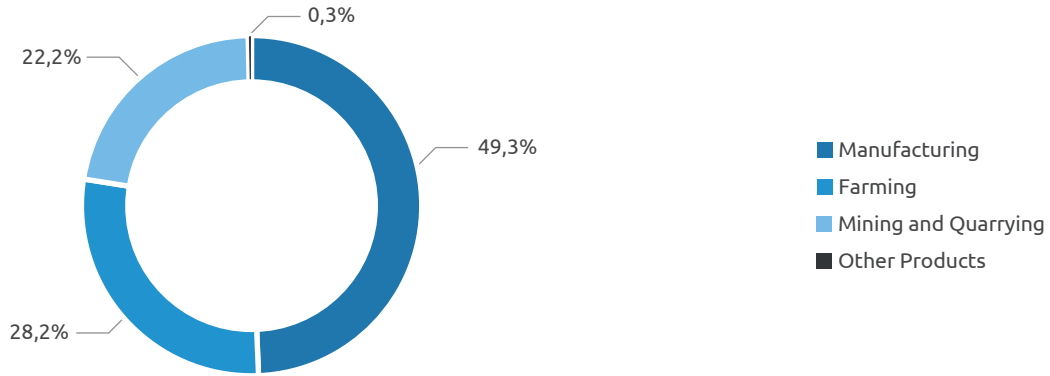


Source: Ministry of Economy.

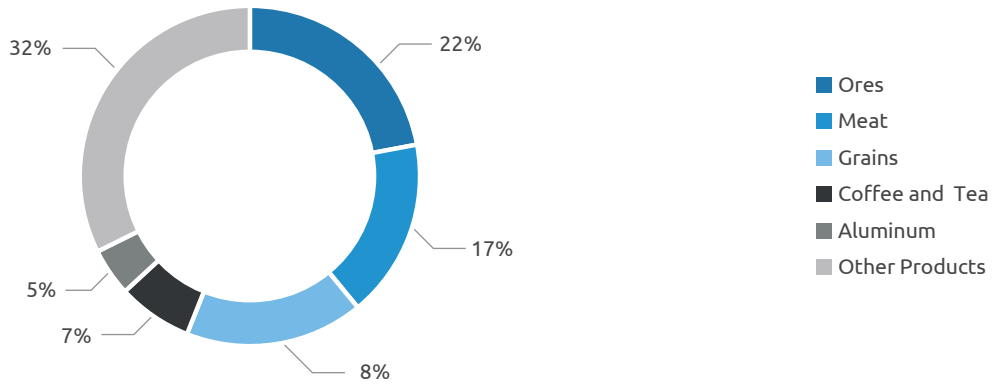
Brazilian exports are composed mainly of the manufacturing, agricultural and livestock, and mining and quarrying industries. The most exported products are ores, meat, and grains. The products from the manufacturing industry are also the highlight in the imports and, furthermore, account for almost 100% of their composition: mechanical machinery, motor vehicles, and electrical machinery.

**CHART 2 – Trade agenda**

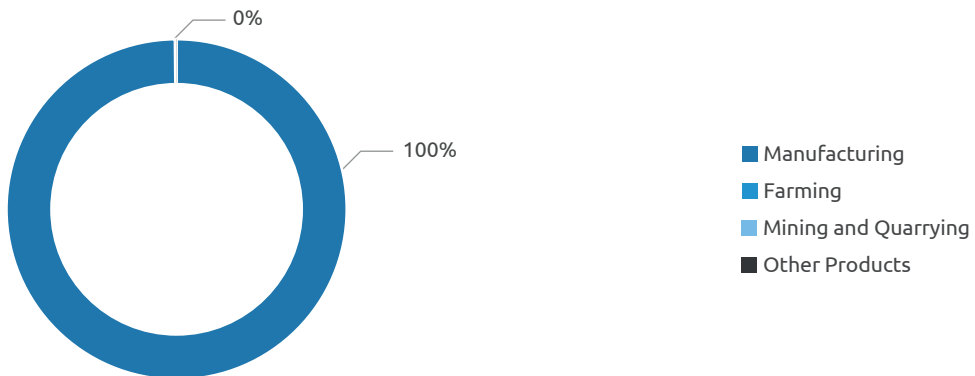
**COMPOSITION OF BRAZILIAN EXPORTS TO JAPAN - 2020 (ISIC FACTOR)**

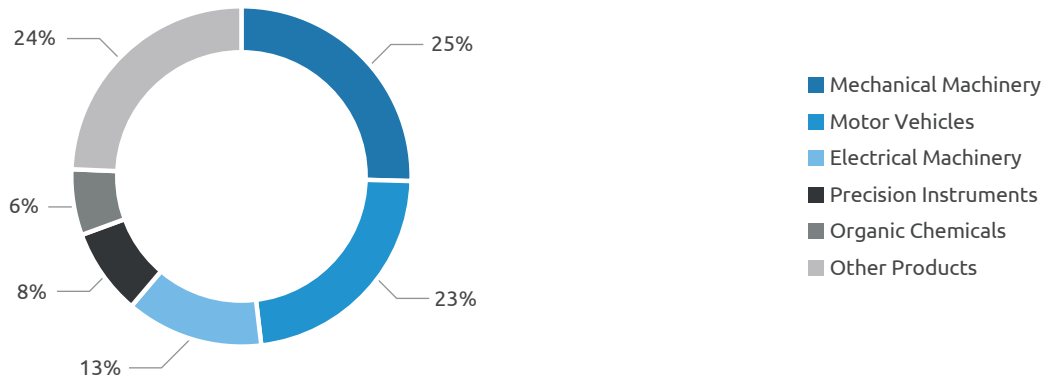


**BRAZILIAN EXPORTS TO JAPAN - 2020**



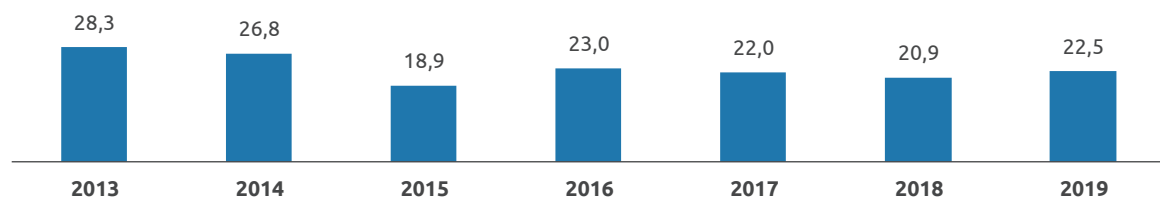
**COMPOSITION OF BRAZILIAN IMPORTS FROM JAPAN - 2020 (ISIC FACTOR)**



**BRAZILIAN IMPORTS FROM JAPAN - 2020**

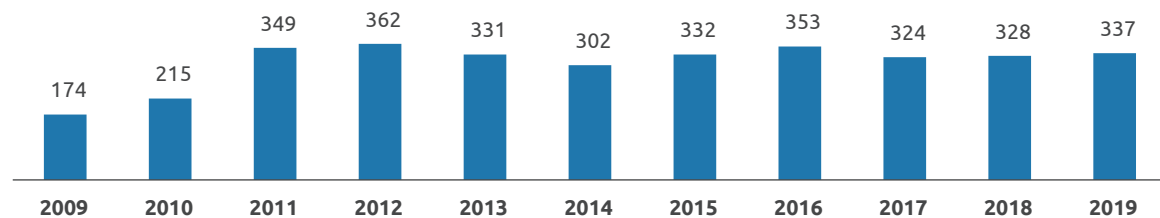
Source: XXXXXXXX.

Japan is the 7th largest foreign investor in Brazil, largely in the automotive industry and its components.

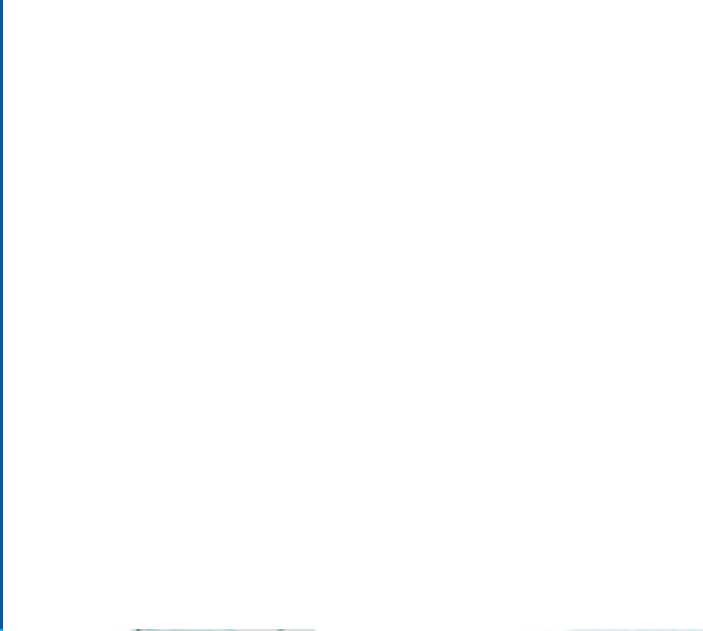
**CHART 3 – Japanese investments in Brazil (US\$ billions)**

Source: XXXXXXXX.

Conversely, Japan ranks 36th among Brazilian investments abroad. The sectors that invest the most are transportation and financial services.

**CHART 4 – Brazilian investments in Japan (US\$ billions)**

Source: Ministry of Economy and FDI Markets. Prepared by: CNI.



## 2 2020-2021 RESULTS



Enactment of the Customs Cooperation and Mutual Administrative Assistance Agreement.





# 3 BRAZILIAN PRIVATE SECTOR DEMANDS



CNI conducted consultations with members of the Brazilian Section of the Brazil-Japan Business Council (Cebraj), from February to April 2021, and put together a list of the main demands of the Brazilian private sector. As a result, nine measures were identified with the potential to improve the business environment and increase trade and investment between Brazil and Japan.

## 3.1 ECONOMIC PARTNERSHIP



### OBJECTIVE

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Start of negotiations for an Economic Partnership Agreement (EPA).

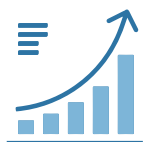


### CONTEXT

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The economic and industrial cooperation between Brazil and Japan has enormous potential for expansion. An agreement making the trade of goods and services between the two countries more fluid will have beneficial effects for both sides.

The National Confederation of Industry (CNI) of Brazil and its Japanese counterpart, Keidanren, have published roadmaps for an EPA in 2015 and 2018. These documents indicate the priority topics that should be included in a future agreement from the perspective of the private sector in both countries. In 2019, both entities reaffirmed their position by issuing a joint statement on the need to start negotiations for a comprehensive, high-level agreement.



### BENEFITS

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To level access conditions to the Japanese market.



### GOVERNMENTAL BODY

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Foreign Trade Chamber, Ministry of Agriculture, Ministry of Economy, and Ministry of Foreign Affairs.



### LEARN MORE

<http://www.portaldaindustria.com.br/publicacoes/2020/4/agenda-para-o-japao-roadmap-para-acordo-de-parceria-economica-entre-o-japao-e-o-mercosul/>

## 3.2 PATENTS



### OBJECTIVE

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Conversion of the Patent Prosecution Highway (PPH) Agreement pilot project into a permanent one.



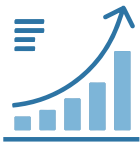
### CONTEXT

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The pilot project between the Brazilian Institute of Industrial Property (INPI) and the Japan Patent Office (JPO) started in April 2017 and will remain in effect until November 2021.

The PPH avoids redundant effort by examiners by ensuring reciprocal access and voluntary use of the analyzes to reduce the time for patent granting.

Therefore, this is an instrument that stimulates research, development, and innovation (RDI), contributing to the competitiveness of Brazilian industry and exports.



### BENEFITS

---

Reduced time to grant patents and greater competitiveness.



### GOVERNMENTAL BODY

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INPI (National Institute of Industrial Property).



### LEARN MORE:

<http://www.inpi.gov.br/pph>

## 3.3 AIR SERVICES



### OBJECTIVE

---

Extension of freedoms of the Air Transport Agreement for cargo transport.



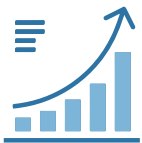
### CONTEXT

---

Brazil has an Air Transport Agreement with Japan that gives access to the 5th “Freedom of the Air”, i.e., the right to embark and disembark, in its territories, passengers and goods in aircraft that are coming to or going from other member countries of the International Civil Aviation Organization (ICAO).

However, the extension of the agreement to the “7th Freedom of the Air” for cargo will increase international cargo flights by allowing transport between Brazilian and third country airports without the need to return to the airline’s country of origin.

The Ministry of Infrastructure has defined the granting of traffic rights up to the “7th Freedom of the Air” for cargo-only services as a negotiating principle (Ordinance No. 527, of August 5, 2019).



### BENEFITS

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Increased offer of air services, reduced costs for transportation of goods, increased foreign trade competitiveness.



### GOVERNMENTAL BODY

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Ministry of Infrastructure and National Civil Aviation Agency of Brazil.



### LEARN MORE

<http://www.portaldaindustria.com.br/publicacoes/2019/10/modalidade-aerea-no-comercio-exterior-brasileiro-prioridades-da-industria/>

## 3.4 OECD



### OBJECTIVE

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Support for Brazil's application to join the Organization for Economic Co-operation and Development (OECD).

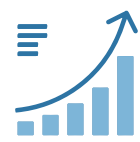


### CONTEXT

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According to a CNI study, by March 2021, Brazil has voluntarily incorporated 99 of the 245 binding OECD agreements, arrangements, recommendations, declarations, or decisions, the equivalent to 40% of the instruments adopted, more than the other five competitors for accession into the organization.

Besides negotiating the adhesion to the Codes of Liberalisation of Capital Movements and Current Invisible Operations, Brazil is engaged in promoting reforms in critical areas for the industry, such as taxation and intellectual property.



### BENEFITS

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Macroeconomic balance, trade liberalization, transparency, and increased security for foreign investments in Brazil.



### GOVERNMENTAL BODY

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Ministry of Foreign Affairs, Ministry of Economy and Office of the Chief of Staff.

## 3.5 AUTHORIZED ECONOMIC OPERATOR



### OBJECTIVE

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Ratification of a Mutual Recognition Agreement (MRA) between Authorized Economic Operator (AEO) programs

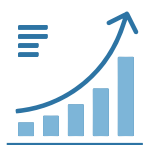


### CONTEXT

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The MRA allows the procedures adopted in AEO certification in Brazil to be recognized in Japan, and vice versa. Thus, authorized companies are automatically recognized in customs as low risk.

The Brazilian AEO model achieved a reduction of more than 70% in time for customs inspections. In exports, the average time for cargo clearing fell from 3.4 hours to less than 1 hour, and in imports, from 23.7 hours to 4.4 hours.



### BENEFITS

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Integration of production chains, speeding of the import and export bureaucratic procedures, and increased competitiveness.



### LEARN MORE

<http://www.portaldaindustria.com.br/publicacoes/2018/11/impactos-economicos-da-implantacao-do-programa-operador-economico-autorizado-no-brasil/>

## 3.6 BARRIERS



### OBJECTIVE

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Removal of trade barriers for Brazilian products in the Japanese market.



### CONTEXT

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Trade and investment barriers are increasingly sophisticated and difficult to identify. In this context, ongoing work with the private sector is needed to properly identify, monitor, and overcome these barriers. Cebraj points out the following barriers for Japan:

**Orange juice:** the two main points of restrictions for the entry of Brazilian orange juice in the Japanese market are: (i) tariff difference due to the classification based on the percentage of *sucrose* content in the product; (ii) access to the market with more restrictive tariffs than the main competitors, due to the absence of a preferential trade agreement. According to the Japanese tariff table, the import tax on Brazilian orange juice is 25.5% because its natural composition contains more than 10% *sucrose*. For juices from other countries, the tax is 21.3%.

**Sugarcane bagasse:** Japan subsidizes industrial waste, such as palm kernel bagasse, for energy generation through biomass. Thus, the export of sugarcane bagasse, which is used for the same purpose, becomes practically impossible.

**Thermo-processed beef:** Japan announced an embargo on Brazilian exports of thermo-processed beef in December 2012. The embargo was announced as a reaction to an atypical case of Mad Cow Disease, with Brazil notified to the World Organization for Animal Health (OIE) in 2012. Since then, through negotiations, Japan officially ended the embargo, but the Japanese authorities demanded from Brazil a list of plants that comply with the Export Verification Program, which requires controlling the age of raw material for cattle to less than 30 months. This requirement, in addition to its difficulty to comply with, is unnecessary, since Brazil has sanitary status of negligible risk, according to the World Organization for Animal Health, the same status as Japan for the aforementioned disease.

**Ethanol:** Japan changed its biofuel policy to have alternative sources to ethanol due to concerns about the continuity of Brazilian supply. There is full capacity to meet the Japanese demand, which is currently 2% of Brazilian production, and sugarcane ethanol has one of the lowest mitigation costs among biofuels because of the continuous evolution of its production system and attention to environmental issues. The use of sugarcane ethanol thus enables Japan to reduce global greenhouse gas (GHG) emissions even more effectively.

**Unprocessed beef:** In 2015, Brazil and Japan negotiated the opening of their markets for unprocessed meat. Although Brazil concluded the opening of its market to fresh wagyu meat, the Japan has still not opened its market to fresh Brazilian meat. In addition to the health issue, Japan applies a special arrangement for chilled or frozen beef, under which the import tax may be increased when there is a 17% or more increase in the volume of imports in a given quarter in relation to the same quarter of the previous year. In this case, Japan may raise the import tax from 38.5% to 50%, with the highest rate applied until the end of the Japanese fiscal year.

**Chilled or frozen pork:** Japan imports pork only from Santa Catarina (a state free of foot-and-mouth disease without vaccination) for health reasons. The expanded opening of the market has potential for Brazilian exports, since the Brazilian product is highly competitive. In addition to the health issue, Japan establishes import tariffs through mechanisms to protect its pig producers, the Gate Price, which focuses on all imported pork products, regardless of the country of origin.



## 3.7 INDUSTRIAL SUBSIDIES



### OBJECTIVE

---

Brazilian's adhesion to the Joint Trilateral Statement (USA, Japan and the EU) within the WTO.

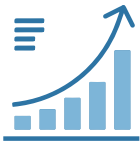


### CONTEXT

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In January 2020, the United States, Japan, and the European Union (EU) signed a trilateral statement to strengthen multilateral trade rules to combat industrial subsidies and the practices of non-market economies. The proposal extends the list of subsidies deemed "prohibited", reverses the burden of proof for subsidies that are extremely harmful, adds subsidies to the definition of "serious damage", among others.

The text also highlights the importance of technology transfer for the mutual growth and development of countries, as long as it is reasonable, voluntary, and based on market principles, countering the forced transfer imposed by some countries, a practice that also targets Brazilian companies.



### BENEFITS

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Strengthening of multilateral rules and fight against unfair trade.



### GOVERNMENTAL BODY

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Ministry of Economy and Ministry of Foreign Affairs.

## 3.8 WTO REFORM



### OBJECTIVE

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Negotiation of proposals for the WTO reform.



### CONTEXT

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The weakening of the multilateral trade system may negatively affect the Brazilian productive sector. Reforms should include the improvement of regular work and transparency in the WTO, strengthening negotiation mechanisms and rules of procedure.

The notification of measures in TBT and SPS committees should be improved, as well as the notification of subsidies. There is room for improvement and strengthening of the Trade Policy Review Mechanisms. In addition, the conclusion of negotiations on new issues at the WTO should be encouraged to revitalize and modernize the organization.

The most important new agreements are especially those on e-commerce, investment facilitation, trade facilitation in services and small and medium enterprises.



### BENEFITS

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Assurance of a multilateral trading system with rules and predictability.



### GOVERNMENTAL BODY

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Ministry of Economy and Ministry of Foreign Affairs.

## 3.9 WTO DISPUTE SETTLEMENT SYSTEM



### OBJECTIVE

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Negotiation of alternatives to the Dispute Settlement Body (DSB) and adhesion of Japan to the temporary plurilateral arrangement for the Appellate Body (WTOAB).



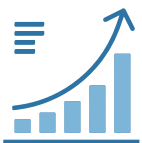
### CONTEXT

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Since 2017, the United States have blocked the appointment of arbitrators to the DSB, which has led to the suspension of the Body and the loss of the ability to implement rules of the WTO.

Among the largest economies, Brazil is, proportionally, the most offensive DSB user, with 67% of the cases and awards that added up to US\$ 9.5 billion in subsidies or barriers to exports. Brazil has panels in progress of up to US\$ 8 billion.

The Plurilateral Arrangement for the WTOAB is a temporary alternative solution, as it allows the use of arbitration procedures, on a provisional basis, from appeal to resolution of the dispute. Brazil has joined the arrangement together with important members such as the European Union, China, and Mexico.



### BENEFITS

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Resumption of the legal backbone of the WTO.



### GOVERNMENTAL BODY

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Ministry of Foreign Affairs.



# BRAZIL-JAPAN BUSINESS COUNCIL



The Brazil-Japan Business Council (Cebraj) was created in 1974 and is the oldest and most important mechanism for business relations between the two countries. It defends the interests of Brazil and Japan in economic, trade, and investment relations.

## BRAZILIAN SECTION

---

**Chairman:** Eduardo de Salles Bartolomeo, CEO of Vale S.A.

**Executive Secretariat:** Brazilian National Confederation of Industry (CNI)

## JAPANESE SECTION

---

**Chairman:** Masami Iijima, Chairman of the Brazil-Japan Business Council with Keidanren and Chairman of the Board of Directors of Mitsui Group

**Executive Secretariat:** Keidanren

## MEMBERS OF THE EXECUTIVE COMMITTEE

---

### Chairmanship

Vale S.A.

### Companies and Business Groups

Albrás – Alumínio Brasileiro S.A.

BRF

Campo

CBMM – Companhia Brasileira de Metalurgia e Mineração

Cenibra

CI&T

Embraer – Empresa Brasileira de Aeronáutica S.A.

Fiação de Seda Bratac S.A.

IRB Brasil Resseguros S.A.

JCB Internacional do Brasil

Raízen S.A.

### **Sector Entities**

Abal – Brazilian Aluminum Association

Abdib – Brazilian Association of Infrastructure and Basic Industries

Abemel – Brazilian Association of Honey Exporters

Abicab – Brazilian Cocoa, Chocolate, Candies and Peanut Manufacturers Association

Abia – Brazilian Association of the Soluble Coffee Industry

Abiec – Brazilian Beef Exporters Association

Abihpec – Brazilian Association of the Personal Hygiene, Perfumery and Cosmetics Industry

Abimo – Brazilian Medical and Dental Devices Manufacturers Association

ABPA – Brazilian Animal Protein Association

Abrafrutas – Brazilian Association of Exporting Producers of Fruits and Derivatives

BSCA – Brazil Specialty Coffee Association

Citrus-BR – Brazilian Association of Citrus Exporters

Brazilian Tree Industry

SOFTEX – Association for Promoting the Brazilian Software Excellence

Unica – Brazilian Sugarcane Industry Association

### **Confederations and Federations**

CNA – Brazilian Confederation of Agriculture and Livestock

CNF – National Confederation of Financial Institutions

CNI – Brazilian National Confederation of Industry

FIEB – Federation of Industries of the State of Bahia

FIEG – Federation of Industries of the State of Goiás

FIEMG – Federation of Industries of the State of Minas Gerais

FIESC – Federation of Industries of the State of Santa Catarina

FIESP – Federation of Industries of the State of São Paulo

FIRJAN – Federation of Industries of the State of Rio de Janeiro







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