

Brazil's Reponse to COVID-19: A Conversation with Brazilian Chargé d'Affaires Nestor Forster

Key Takeaways

Brazil's Response to COVID-19

On May 15, 2020, Kim Breier interviewed Ambassador Nestor Forster Jr., Chargé d'Affaires to the Brazilian Embassy on Brazil's response to the COVID-19 pandemic. Below are the takeaways from their discussion.

Unprecedented U.S.-Brazil Cooperation

The United States and Brazil are in a period of unprecedented alignment, which is founded on shared values and a convergence of world views. This partnership was recently reinforced by the March 2020 meetings between the Presidents at Mar-a-Lago. The countries are intensifying cooperation in science and technology, education, aerospace, health, economics, and trade.

Economic and Trade Advances

The pandemic has not slowed the economic agenda. Brazilian representatives have been meeting virtually with officials from the United States Trade Representative and the Department of Commerce to deliver concrete results this year on trade and regulatory cooperation. The governments resumed the CEO Forum last year, a private-sector forum that will make recommendations on how to advance the relationship. The governments are collaborating under the Agreement on Trade and Economic Cooperation (ATEC) framework and the bilateral commercial dialogue met in plenary in May to set an agenda for removal of non-trade barriers. Both governments expect that these discussions to pave the way for a more comprehensive agreement, which is the ultimate goal of both presidents. The United States reiterated support for Brazil's bid to join the OECD.

Brazil's Response to COVID-19, Federal, State, and Local

President Bolsonaro expressed concern for the most vulnerable individuals with informal jobs and no unemployment insurance, which represent a significant part of Brazil's population. There is a health crisis, coupled with an economic and social crisis, and these need to be addressed at the same time. The Ministry of Health is providing guidance to the population on to safety protocols and the federal government has been sending resources to state and local governments (e.g., it distributed 10 million tests to diagnose the disease and 46 million are on the way). State and local governments are responsible for implementing the measures. As it happens in any federative democracy, there are different views on how to address the outbreak. There is no "one size fits all" solution beyond what is established by science and best practices.

Economic Stimulus Package

Brazil's fiscal stimulus package totaled \$236 billion (USD), this represents nearly 10 percent of Brazil's GDP. The Brazilian Central Bank has made available \$240 billion, providing liquidity to financial institutions and there is more on the way.

Essential Sectors

There is a legal definition for essential activity at the federal level, which includes over 57 sectors (e.g., water, sanitation, electricity, public safety, healthcare, and transportation services). Most recently, the inclusion of restaurants, fitness centers and barber shops on the list of essential activities was controversial. The Supreme Court decided that the states and municipalities have jurisdiction to regulate the local functioning of essential activities and to enforce COVID-19 measures.

International Trade, Tariffs, and Export and Travel Restrictions

Brazil eliminated tariffs on over 500 products, parts, and components related to health industry. Like many other countries, Brazil restricts the export of goods essential to fight the pandemic, such as PPE, ventilators, and hospital beds. Since the end of March, there are restrictions on the entrance of foreign travelers. There are many exceptions, such as diplomatic officials and foreigners who have permanent residence or family members in Brazil.

Brazil's PPE and Medical Supply Needs

There is a world shortage of equipment and ventilators. The government is trying to increase its production locally by providing financing and other incentives. On the import side, the United States has provided assistance to ensure Brazil's access to ventilators. Brazil has manufacturers with local production of PPE. In the case of hand sanitizers, Brazil has excess capacity and is ready to export.

Best Practices

Companies should conduct due diligence when negotiating medical contracts. The Trade Section at the Brazilian Embassy and Brazil's consulates in the U.S. are available to provide guidance. There are unfortunate cases where people have tried to take advantage of the health emergency, so it is important to certify that orders can be verified.

Oil & Gas

There has been no disruption in the fuel supply chain, while Brazil has seen a decrease in demand and production. The Brazilian Petroleum Agency (ANP) provided regulatory breaks by extending contractual obligations in some cases, Petrobras has cut 200,000 barrels per day joining the global effort to stabilize price. Petrobras has a credit line of \$8 billion from the private sector.

Aviation Industry

There has been a decrease in global demand of over 90 percent in the aviation sector. The Brazilian Government postponed the collection of some taxes specific for the sector. In addition, there are ongoing negotiations with private and public financial institutions to provide \$1.0-1.5 billion package in credit lines to help the aviation industry.

Brazil's Relations with China

The two countries have a mature relationship. China is Brazil's number one trade partner. While Brazil has an important role in food and raw materials supply, China has significant investments in Brazil in infrastructure. Brazilian exports increased in this first quarter, not only to China, but to Asia in general. It is an important relationship.

Domestic Reform Agenda

To make the best out of the situation, Brazil is focusing on domestic economic reforms. When asked about the possibility of pushing this agenda forward, Brazil's Minister of Economy, Mr. Paulo Guedes, said that COVID-19 should accelerate reforms and trade discussions rather than delay them. Last year, Brazil concluded negotiations with the European Union and Mercosur, which was the largest trade agreement in history in terms of size of the economies. Although pending Congressional approval, it is expected to be implemented within a year. This will bring positive stimulus for investments in Brazil. Adding to this, the movement forward in trade cooperation with the United States is a positive signal.

Bottom Line for Companies

The main message to companies around the globe operating or interested in Brazil is that the country is open for business, perhaps as never before. What Brazil has done so far in terms of economic reforms, including the pension reform, allowed the country to provide the fiscal stimulus, and grant liquidity to the economy. Also, micro economic reforms are increasing economic freedom, deregulating and bringing a culture of market oriented reforms. All of these has put the country in a better position to receive investment.