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Brazil-European Union: one step forward, two steps backwards?

Rui Faria da Cunha[1][2]

Abstract

This article analyzes recent developments in political, trade and investment between Brazil and the European Union and seeks to establish a relationship between these dimensions, seeking a pattern and trend that can anticipate the near future.

Observing the trade and investment flows in the early years of the 21st century, there is an apparent coincidence between the growth and the advancement of the political agenda. However, from 2011 onwards there is a slowdown in the economic activity. To confirm a relationship between the advancement of political and economic agendas, can the strengthen of the first to have a positive effect on the second? In what way?

More than provide definitive response, the article intends to open a discussion on the topic: Political Relations

Despite the establishment of diplomatic relations occurred in 1960, political relations between Brazil and the European bloc took off only in 1992 with the signing of the Framework Cooperation Agreement, in which the Contracting Parties undertook to give new boost to their relations focusing in the development of cooperation in trade, investment, finance and technology.

In 1995, Mercosur and the European Union signed a Interregional Framework Cooperation Agreement, which established the outlines for the

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[1] *Lawyer, licensed from the University of Coimbra, post-graduate in competition law at King's College, masters of European law by the European Institute of Public Administration, Masters in European litigation by the University International Institute of Luxembourg. Governmental Relations Manager at the Apex-Brazil Office in Brussels, Belgium.*
[2] *This article is the author's full responsibility*

negotiation of an Association Agreement between the two regions, with three pillars: political dialogue, cooperation and trade.

In 2004, the relationship gained new momentum with the signing of an agreement for scientific and technological cooperation, which aimed to encourage, develop and facilitate cooperative activities in areas of common interest by conducting and supporting research activities and scientific development and technological.

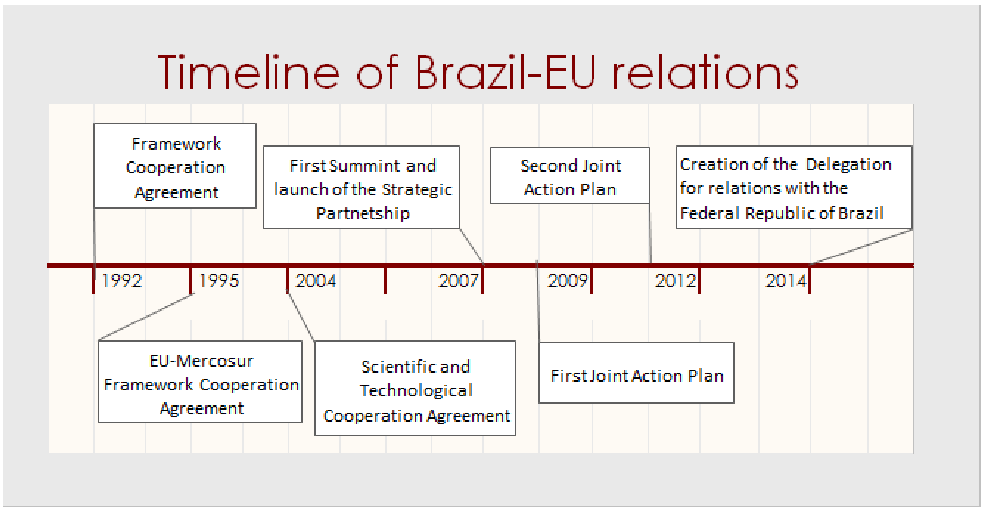
However, in 2007 the launch of the European Union-Brazil Strategic Partnership during the first bilateral Summit that aimed to promote the prosperity, protect the environment and reforming global governance, took the relationship between the partners to another level.

As part of the Strategic Partnership were signed two Joint Action Plans (JAP - Joint Action Plan) in 2008 and 2011, covering the three-year periods 2009-2011 and 2012-2014, and created more than thirty sectorial dialogues, covering topics as diverse as Agriculture and Rural Development, Human Rights and Small and Medium Enterprises.

Since 2007, the two parties held seven annual meetings of the Summit and many other Business Meetings, boosting bilateral relations or the public level or private.

In 2014, the European Parliament created the "Delegation for relations with the Federal Republic of Brazil", whose main objective monitoring of the Strategic Partnership.

Chart 1



Timeline Brazil-EU political relations
Elaboration: author.

Commercial exchange

Starting from the most recent statistics available, of 2013, it appears that the European Union as a whole maintains its position as the main destination of Brazil's exports and origin of imports.

With regard to exports, the European Union accounted for 19.7% of the total, ahead of China, with 19% of Mercosur, with 12,2% of the United States, with 10,3% and the Middle East with 4,5% (see chart 2).

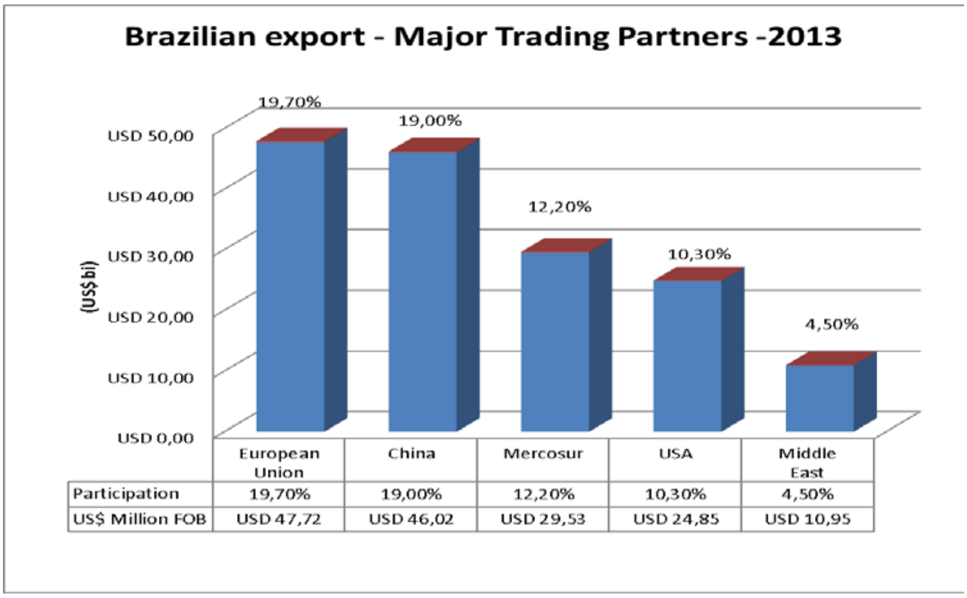


Chart 2

Source: SECEX
Elaboration: autor

With regard to imports, the EU has also emerged as the leading provider in Brazil, with 21,18% of the total, followed by China, with 15,57%, the United States, with 15,14%, Mercosur with 8,53 % and Nigeria with 4,02% (see chart 3).

Chart 3

Source: EUROSTAT
Elaboration: author.

Regarding the composition of Brazilian exports to the European bloc in 2013, it was equally distributed between basic and industrial products (manufactured and semi-manufactured), especially for the sale of minerals, soybean meal, fuel and grains (see table 1).

Table 1

Composition of Brazilian Exports from the EU in 2013		
Description	Value	Share
Minerals	7 521	15,70%
Soybean meal	4 731	9,90%
Fuels	3 425	7,20%
Grains	2 811	5,90%
Coffee, tea and spices	2 554	5,30%
Floating vessels	2 453	5,10%
Slot machines	2 302	4,80%
Wood pulps	2 073	4,30%
Preparations of vegetables	1 585	3,30%
Meat	1 365	2,90%
Subtotal	30 819,60	64,50%
Other products	16 952,00	35,50%
Total	47 772	100,00%

US$ million, FOB

Source: SECEX

On the other side, Brazilian imports from the EU in the same year, were overwhelmingly composed by industrial products, especially slot machines (23,4%), automobiles (10,5%), pharmaceuticals (8,10%) and electrical equipment (7,8%) (see Table 2).

Table 2

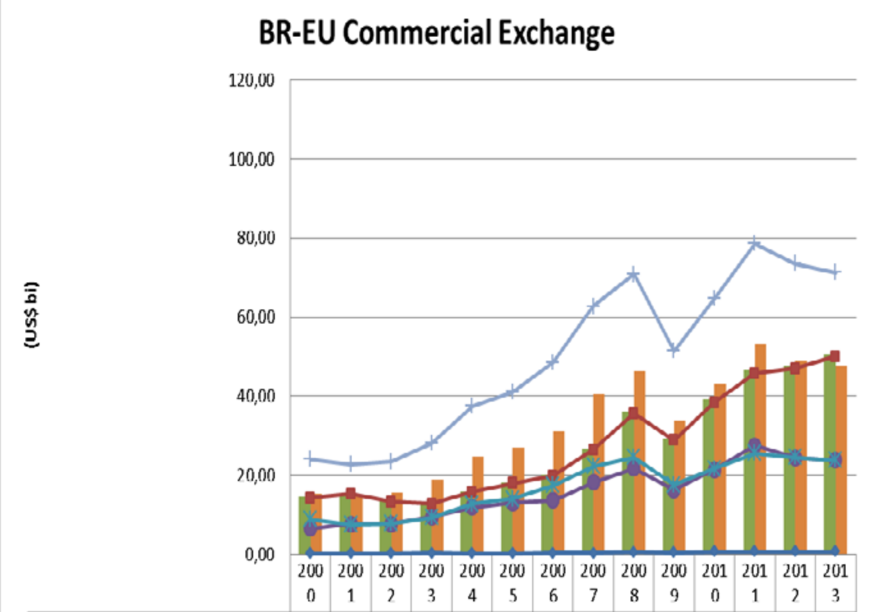
Composition of Brazilian imports from the EU in 2013		
Description	Value	Share
Slot machines	11 863	23,40%
Automobiles	5 345	10,50%
Pharmaceuticals	4 087	8,10%
Eletrical Equipments	3 964	7,80%
Organic chemicals	3 066	6,00%
Fuels	2 637	5,20%
Precision instruments	2 432	4,80%
Plastics	2 069	4,10%
Several chemical industries	1 753	3,50%
Iron/Steel work	1 697	3,30%
Subtotal	38 913	76,70%

US$ million, FOB
Source : SECEX

Analyzing the evolution of trade flow from 2000 to 2013 we can analyze a growth of 210,32% of Brazil's exports to the European Union (US $ 15,3 billion to US $ 47,48 billion), 249,03% of EU imports to Brazil (US $ 14,54 billion to US $ 50,75 billion) and 229,18% in the trade flow (US $ 29,84 billion to US $ 98,23 bi) (see Chart 4).

When looked at the composition of trade in the same period, it appears that the export of commodities from Brazil to the European Union grew 263,55% (US $ 6.53 billion to US $ 23,74 billion) and processed 170, 69% (US $ 8,77 billion to US $ 23,74 billion), with imports of basic goods of the European Union increased 247,61% (US $ 0,21 billion to US $ 0,73 billion) and industrialized ones increased 249,30% (US $ 14,32 billion to US $ 50,02 billion) (see chart 4).

Chart 4



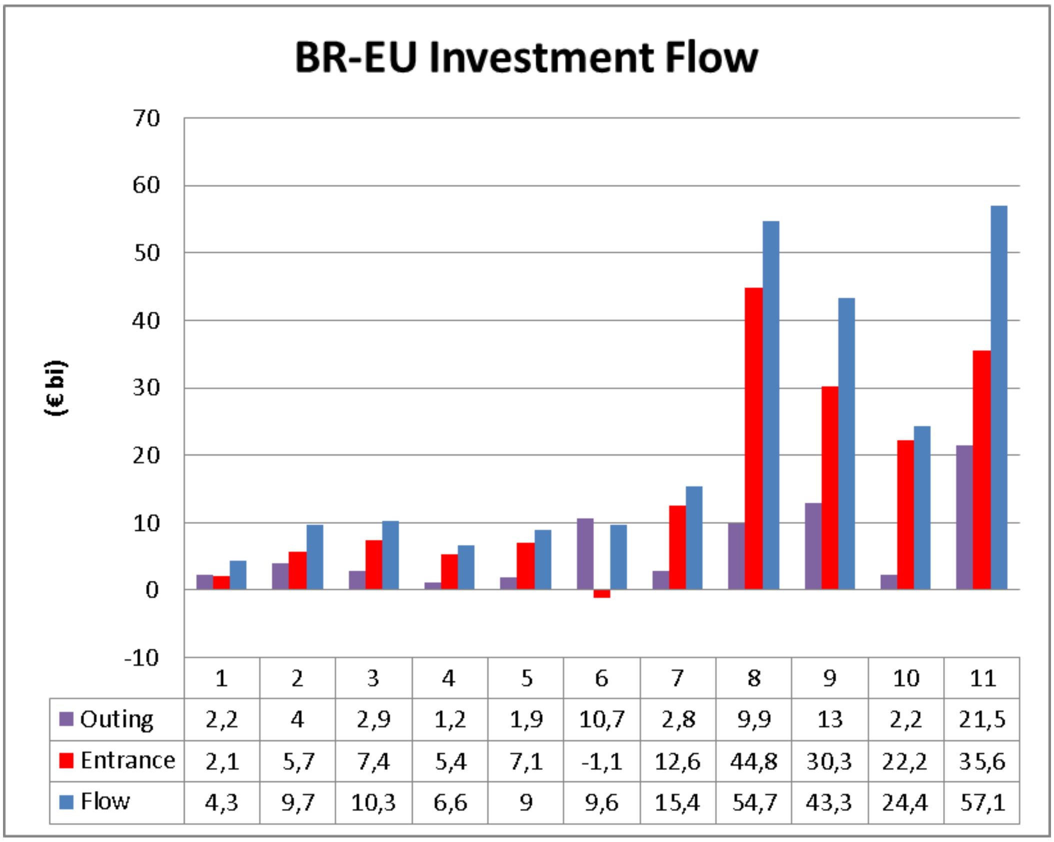
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL IMPORT (US$)	14,54	15,45	13,49	13,06	15,99	18,23	20,22	26,74	36,19	29,23	39,15	46,47	47,71	50,75
TOTAL EXPORT (US$)	15,30	15,23	15,58	18,82	24,69	27,07	31,07	40,50	46,37	33,88	43,05	53,05	48,96	47,48
BASICS IMPORT (US$)	0,21	0,17	0,25	0,35	0,22	0,23	0,32	0,32	0,64	0,40	0,73	0,77	0,73	0,73
MANUFACTURED IMPORT (US$)	14,32	15,28	13,24	12,71	15,77	18,00	19,90	26,42	35,55	28,83	38,42	45,70	46,98	50,02
BASICS EXPORT (US$)	6,53	7,66	7,72	9,52	11,89	13,05	13,65	18,24	21,81	16,28	21,45	27,50	24,43	23,74
MANUFACTURED EXPORT (US$)	8,77	7,57	7,86	9,30	12,80	14,02	17,42	22,26	24,56	17,60	21,60	25,55	24,53	23,74
TRADE FLOW	24,07	22,80	23,44	28,12	37,49	41,09	48,49	62,76	70,93	51,48	64,65	78,60	73,49	71,22

Source: SECEX
Elaboration: author

<u>Investment</u>

Regarding the investment flows between Brazil and the European Union, despite the lack of consistency of the various analyzed statistics, and in particular due to the different FDI definitions, it has been observed between 2003 and 2013, a significant increase in both the entrance, foreign direct investment, (from € 2.1 billion to € 35.6 billion) or outings, Brazilian direct investment (€ 2.2 billion to 21.5 billion) of investment (see chart 5).

Chart 5



	1	2	3	4	5	6	7	8	9	10	11
Outing	2,2	4	2,9	1,2	1,9	10,7	2,8	9,9	13	2,2	21,5
Entrance	2,1	5,7	7,4	5,4	7,1	-1,1	12,6	44,8	30,3	22,2	35,6
Flow	4,3	9,7	10,3	6,6	9	9,6	15,4	54,7	43,3	24,4	57,1

Source: EUROSTAT
Elaboration: author

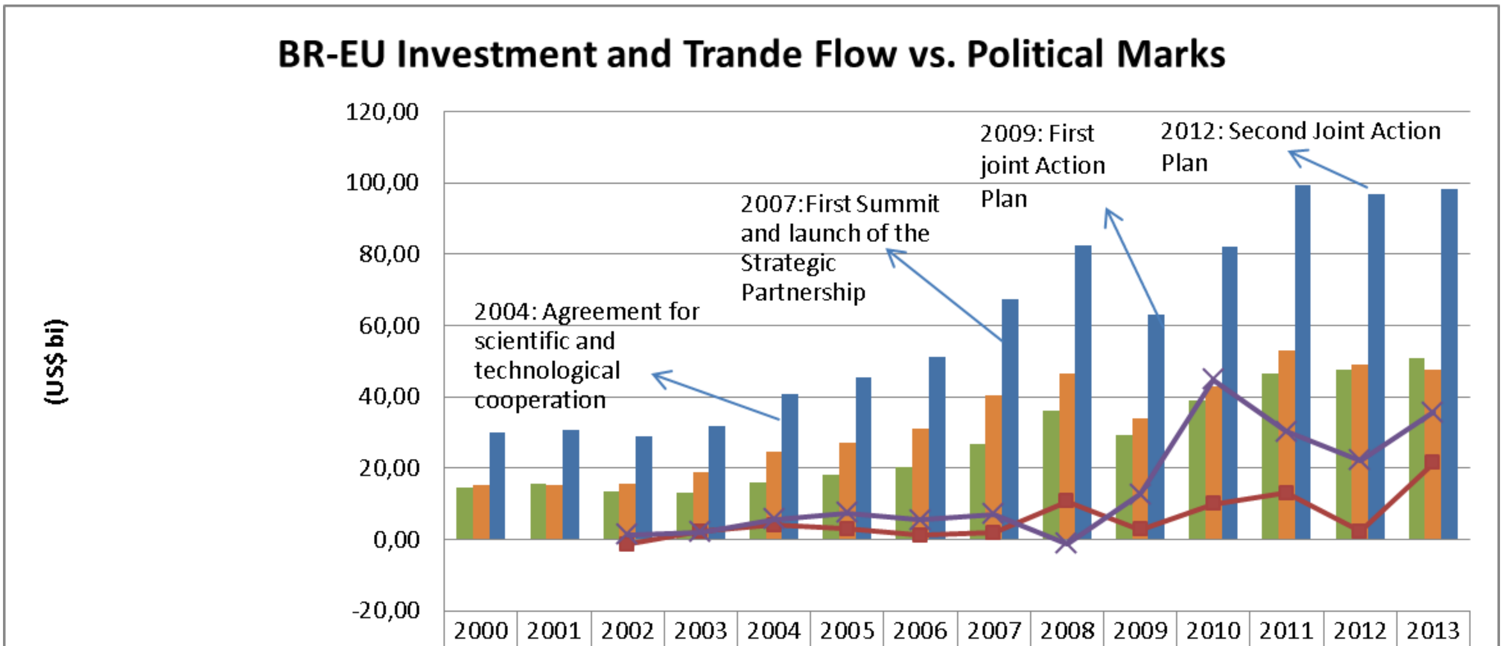
From rise to stagnation?

Analyzed statistical data from the beginning of the 21st century, there has been a huge growth in trade and investment flows between Brazil and the EU with increases in superior to 200 and 1000%, respectively.

On the other hand, during the same period the political relationship between the two trading partners was also strengthened with the signing of the Agreement for scientific and technological cooperation in 2004, the launch of the European Union-Brazil Strategic Partnership in 2007, the seven summits and meetings annual business between 2007 and 2014, the two Plans of Joint Action in 2008 and 2011 and the creation of the "Delegation for relations with the Federal Republic of Brazil" of the European Parliament since 2014.

It seems there is a coincidence between the rise of political activity and trade and investment flows (see chart 6).

Chart 6



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL IMPORT	14,54	15,45	13,49	13,06	15,99	18,23	20,22	26,74	36,19	29,23	39,15	46,47	47,71	50,75
TOTAL EXPORT	15,30	15,23	15,58	18,82	24,69	27,07	31,07	40,50	46,37	33,88	43,05	53,05	48,96	47,48
TRADE FLOW	29,84	30,68	29,07	31,88	40,68	45,30	51,29	67,24	82,56	63,11	82,20	99,52	96,67	98,23
DIRECT INVESTMENT (Outing)			-1,3	2,2	4,0	2,9	1,2	1,9	10,7	2,8	9,9	13,0	2,2	21,5
FDI ENTRANCE			1,3	2,1	5,7	7,4	5,4	7,1	-1,1	12,6	44,8	30,3	22,2	35,6

Source: SECEX
Elaboration: author

After observing the graphic, the signing of the agreement for scientific and technological cooperation in 2004 and the launch of the strategic partnership in 2007 appear to be both a consequence and a driver for the growth of trade and investment relations. With the exception of 2009, due to the international financial crisis, the growth of trade was uninterrupted between 2004 and 2011, when it peaked and apparently began a downward trend.

What could be the cause of this deceleration? Would it be the start of a prolonged decline? Can the strengthening of political relations give again a boost to trade and investment flows? What reinforcement could it be?

One explanation for a possible slowdown trend can be found in international trade negotiations.

In an increasingly globalized and interdependent word, with global value chains involving with different continents frequency, bilateral and plurilateral trade agreements won a renewed relevance, especially with the impasse of the Doha round,.

For example, the United States currently have in place free trade agreements with 20 countries, and in negotiations with several countries in the Asia-Pacific region to complete the called Trans-Pacific Partnership Agreement (TPP) and the European Union called for the conclusion of the Transatlantic Trade and Investment Partnership (TTIP)[3].

However the European Union concluded in recent years, free trade agreements with Mexico (1997), Chile (2002), South Korea (2010), Colombia and Peru (2010), Central America (2012) and Ukraine (2014). In September 2014, it held negotiations with the United States, ASEAN, Japan, India and Ukraine, among others[4].

Another important factor to be considered is the Generalized System of Preferences (GSP), to the extent that it can strongly affect Brazilian exports to the European bloc,

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[3] *The full list can be found at: http://www.ustr.gov/trade-agreements/free-trade-agreements*
[4] *The full list can be found at: http://ec.europa.eu/enterprise/policies/international/facilitating-trade/free-trade/index_en.htm*

In January 2014, Brazil was excluded from the EU GSP, and the European executive body justified the decision with the entry of the Brazilian economy in the group of upper-middle income countries, according to the World Bank.

Such as Brazil other countries in the region were excluded from the European SGP such as Argentina, Cuba, Venezuela and Uruguay. Others remained, such as Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Peru.

It is estimated that the most affected sectors should be the machines, auto parts, plastics, textiles and chemicals, the main benefit from the tariff reduction of 3,5 % that the European Union has granted to Brazil by December 2013.

However, for some of the countries that have also lost the tariff preference, the impact will be very limited or none at all because they already had advantages of trade agreements signed with the European Union. In this group of countries are Mexico, South Africa, Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia and several Caribbean countries, including the Dominican Republic.

The signing of a free trade agreement with the European Union, in or out of the agreement between Mercosur and the European bloc, that has been negotiated since 1999, could not only mitigate the effects of loss of tariff preference, but also integrate Brazil in the current chain of bilateral trade negotiations or plurilateral and compensate the advantages that some of its main competitors gained by signing agreements with the European Union.

Conclusion

The first decade of the 21st Century witnessed an exponential growth of political and commercial relations between Brazil and the European Union, with the signing of important cooperation agreements and partnership and record numbers of trade and investment. However, this growth can have reached its peak in 2011, the year from which there is a slowdown in economic relations. To confirm the thesis that advances in political and economic agenda were linked in the first decade of the 21st Century, a new political framework could boost the growth of trade and investment flows. Observed the clear commitment of the European Union and other *global* *players* in the signing of bilateral and plurilateral free trade agreements (at the expenses of multilateralism), particularly with countries that compete directly with Brazil for access to the European market and the effects of the end of the tariff preference that the European Union granted to an important part of Brazilian exports; the signing of a free trade agreement between Brazil and the European Union, in or out of the ongoing negotiations between Mercosur and the European bloc appears as a natural development of the bilateral relationship that can consolidate a sustained growth in trade and investment relations.