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## NEW TRADE AND ECONOMIC RELATIONS BETWEEN BRAZIL AND THE EUROPEAN COMMUNITY

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INTRODUCTION

This memorandum has been prepared to coincide with the official visit to Brazil from 3 to 6 November by Mr. Wilhelm Haferkamp, Vice-President of the Commission with responsibility for the European Communities' external relations. The purpose of this visit is to re-establish contact at the highest level with the Brazilian authorities with a view to discussing the future pattern of cooperation against the background of the recent entry into force on 1 October of the EC-Brazil Cooperation Agreement signed in 1980 in Brussels.

This will be the fourth time that a Commission Member has paid an official visit to Brazil. The process of opening a dialogue and working towards agreements with Brazil was begun in 1971 by Mr. Ralf Dahrendorf and followed up in 1975 by Sir Christopher Soames. In 1979, Mr. Haferkamp laid firm foundations for trade and economic relations in his interview with the President of the Republic, Joao Baptista Figueiredo, and several of his Ministers. Together with the Brazilian Foreign Minister he inaugurated the work of the EC-Brazil Joint Committee, at which meeting discussion covered not only ways of increasing trade but also an examination of the conditions for extending commercial and economic cooperation.

BRAZIL: A FEW SALIENT FACTS

Brazil is virtually a continent. With a land area of 8 511 965 km<sup>2</sup>, it is the world's fifth largest country. It occupies half of South America and is bordered by all the South American countries except Chile and Ecuador.

Brazil's coastline measures 7 410 km. In the Amazon it possesses the world's longest river and the Amazon forest is the world's largest nature reserve.

With a current population of 120 million and an annual growth rate of 3%, it is calculated that by the year 2 000 the population will have risen in 200 million.

Brazil, whose GNP in 1981 stood at over \$ 200 000 million, is patronising an economic force to be reckoned with.

EC-BRAZIL TRADE RELATIONS

The trend of Brazil's external trade has been extraordinary. Its exports (fob), which in 1968 represented \$ 1 881 million, by 1980 stood at \$ 18 361 million.

Its imports (cif), over the same period, increased from \$ 2 132 million to \$ 25 410 million. In 1968 Brazil had a trade deficit of \$ 251 million, which by 1981 had risen to \$ 7 049 million. (Source: IMF, International Financial Statistics).

Brazil is the Community's largest export market in Latin America; in 1968 it took 23.3% of the Community's exports to that region. However, in 1980 Community exports accounted for only 15.2% of Brazilian imports, compared with the 18.5 % accounted for by exports from the United States.

The principal products exported by the Community to Brazil in 1978, 1979 and 1980 were machinery and transport equipment, representing 48.06%, 51.11% and 53.40% of total exports respectively.

The other main exports to the Brazilian market over the same period were chemicals and associated products, which accounted for 23.48%, 22.67% and 21.68% over the three years in question.

The European Community is, in its turn, Brazil's largest export market and alone accounted for 30%, 32%, 30%, 30%, 29% and 25.5% of that country's world exports in 1976, 1977, 1978, 1979, 1980 and 1981 respectively, compared with 18% for Brazil's exports to the United States in 1976 and 1977, 23% in 1978, 19.3% in 1979, 19.8% in 1980 and 17.3% in 1981. The decline in the EEC's share from 30% to 25% is not due to Community restrictions but to diversification of Brazil's clients, particularly among the developing countries.

However, Brazil's imports from the United States exceed those from the Community. In 1976, 1977, 1978 and 1980 they represented 23%, 20%, 21% and 18.5% respectively of its total imports, whereas its imports from the Community over the same period represented 20%, 20%, 19% and 15.2%.

Brazil's trade surplus with the EC enables it to finance some of its oil purchases; in 1981 this surplus accounted for about a third of its annual oil bill.

TABLE I

Geographical structure of Brazil's external trade and its trade balance in 1980  
(million dollars)

	EXPORTS		IMPORTS		TRADE BALANCE
	Value	%	Value	%	
<b>TOTAL</b>	<b>18.361</b>	<b>100,0</b>	<b>25.410</b>	<b>100,0</b>	<b>- 7.049</b>
<b>I. Developed countries</b>	<b>12.032</b>	<b>65.5</b>	<b>11.578</b>	<b>45.6</b>	<b>+ 454</b>
- United States	3.636	19.0	4.690	18.5	- 1.054
- Japan	1.429	7.8	1.236	4.9	+ 193
- EC (9)	5.327	29.0	3.858	15.2	+ 1.469
- Other	1.640	8.9	1.794	7.0	- 154
<b>II. State-trading countries (1)</b>	<b>1.114</b>	<b>6.1</b>	<b>281</b>	<b>1.1</b>	<b>+ 833</b>
<b>III. Developing countries</b>	<b>5.181</b>	<b>28.2</b>	<b>13.536</b>	<b>53.3</b>	<b>- 8.355</b>
- Latin America (2)	2.531	13.8	3.056	12.0	- 525
- OPEC countries (except Venezuela)	702	3.8	8.950	35.2	- 8.248
- Other developing countries	1.948	10.6	1.530	6.1	+ 418

Source: IMF, Directorate of Trade

(1) Includes Cuba according to IMF definition.

(2) The 20 countries of Latin America except Cuba.

In the last few years, Brazil's exports to the European Community have increased very rapidly; they cover not only raw materials but also manufactured goods such as machinery, shoes, engines, clothing, etc. (see Table II).

**TABLE II**

EC (9) TRADE WITH BRAZIL						
(by products) Value in million ECU						
	1978		1979		1980(1)	
	Value	%	Value	%	Value	%
<b>IMPORTS</b>						
SITC SECTION 0	1516.84	49.89	1678.19	46.63	1920.46	46.45
" " 1	104.72	3.44	136.02	3.78	112.45	2.72
" " 2	686.86	22.59	843.49	23.44	1008.70	24.40
" " 3	2.03	.07	1.83	.05	19.23	.47
" " 4	74.21	2.44	95.72	2.66	94.39	2.28
" " 5	37.85	1.24	56.24	1.56	70.23	1.70
" " 6	310.12	10.20	420.90	11.70	501.38	12.13
" " 7	203.90	6.87	233.41	6.49	274.13	6.63
" " 8	91.86	3.02	125.10	3.48	121.44	2.94
" " 9	7.13	.23	7.92	.22	11.67	.28
SEC. 0 - 9	3040.52	100.00	3598.82	100.00	4134.08	100.00
<b>EXPORTS</b>						
SITC SECTION 0	61.03	2.88	60.51	2.55	74.27	2.93
" " 1	10.98	.52	10.30	.43	10.41	.41
" " 2	26.34	1.24	27.00	1.14	30.53	1.20
" " 3	56.80	2.68	29.44	1.24	23.92	.94
" " 4	.75	.04	7.14	.30	.56	.02
" " 5	496.72	23.48	533.03	22.67	540.47	21.68
" " 6	281.62	13.31	318.00	13.40	314.83	12.42
" " 7	1016.91	48.06	1212.97	51.11	1353.70	53.40
" " 8	112.49	5.32	121.02	5.10	138.07	5.45
" " 9	52.26	2.47	48.94	2.06	39.26	1.55
SEC. 0 - 9	2115.90	100.00	2373.35	100.00	2535.02	100.00
BALANCE 0 - 9	924.62	-	1225.47	-	1599.06	-

Source: EUROSTAT, CROMOS SYSTEM

(1) Provisional data

- SITC SECTION 0: Food and live animals
- " " 1: Beverages and tobacco
- " " 2: Raw materials, inedible, except fuels
- " " 3: Mineral fuels, lubricants and related materials
- " " 4: Animal and vegetable oils and fats
- " " 5: Chemicals
- " " 6: Manufactured goods classified chiefly by material
- " " 7: Machinery and transport equipment
- " " 8: Miscellaneous manufactured articles
- " " 9: Commodities and transactions not classified according to kind
- SEC. 0 - 9 : Total trade

TABLE III

EC (9) TRADE WITH BRAZIL

(million ECU)\*

YEAR	IMPORTS	EXPORTS	BALANCE
1973	1.978	1.447	- 531
1974	2.275	2.617	+ 342
1975	2.214	2.309	+ 95
1976	2.753	2.211	- 542
1977	3.433	2.193	- 1240
1978	3.048	2.117	- 931
1979	3.602	2.373	- 1229
1980	4.134	2.535	- 1599

Source: Eurostat - Monthly External Trade  
Bulletin - Special Number

\* ECU : European unit of account

To complete the picture of Brazil's economic structure in relation to the EC, see Table IV - Balance of Payments.

TABLE IV

Balance of payments: Brazil-World and Brazil- EC  
(million dollars)

	1978		1979		1980	
	World	EC	World	EC	World	EC
Trade balance						
A) Exports-Imports	-1.024,2	1.183,0	-2.839,5	1.229,8	-2.822,8	1.832,8
B) Services	-6.037,2	-1.496,7	-7.920,2	-2.163,7	-10.152,0	-2.861,3
C) Goods and services	-7.061,4	- 313,7	-10.759,7	- 933,8	-12.974,8	-1.028,5
D) Unrequired transfers	71,0	8,3	18,1	23,9	167,8	54,1
E) Current transfers (C + D)	-6.990,4	- 305,3	-10.741,6	- 909,9	-12.807,0	- 974,4
F) Capital account	11.891,4	3.770,5	7.656,9	2.742,9	9.678,7	1.956,0
G) Errors or omissions	- 638,6	-	- 130,2	-	- 343,3	-
H) Total (surplus or deficit) (E + F + G)	4.262,4	3.465,1	-3.214,9	1.833,0	-3.471,6	981,6

Sources: Bulletins of the Central Bank of Brazil (Volumes 15 to 18, May 1979 to May 1982).

Central Bank of Brazil. Economic Department (BIBAP).

INVESTMENT

Many of the EC Member States have large investments in Brazil. In the period from 1978 to 1981 the Nine took the lead in terms of foreign investment in Brazil, their share over the four years amounting respectively to 32.51%, 33.1%, 33.1% and 30.5% of all foreign investment in that country.

The investment share of the United States over the same years was 27.82%, 27.4%, 28.6% and 30.0%, making the USA the country with the largest individual investment in Brazil, Germany taking second place with 15.26%, 15.4%, 14% and 13.7%.

Brazil has repeatedly stated that foreign capital will be called upon to play a major part in the country's economic development and will enjoy the same guarantees as Brazilian private capital against nationalization and other risks.

It has also stated that foreign private investment can help to promote the transfer of technology and increase Brazilian imports of capital goods. Table V shows in detail the trend of foreign investments:

TABLE V

Foreign investment and reinvestment in Brazil

(million dollars)

YEARS	EC			USA			JAPAN			SWITZERLAND		
	Inv-est-ment	Rein-vest-ment	Total	Inv-est-ment	Rein-vest-ment	Total	Inv-est-ment	Rein-vest-ment	Total	Inv-est-ment	Rein-vest-ment	Total
1961-1970	384	384	768	323	369	692	101	8	109	135	122	257
1971-1975	975	515	1490	1102	494	1596	788	42	830	437	177	614
1976	306	152	458	330	188	518	148	17	165	143	59	202
1977	544	122	666	192	222	414	154	19	173	108	117	225
1978	310	175	485	307	114	421	130	22	152	119	68	187
1979	618	158	776	598	112	710	138	20	158	72	64	136
1980	456	103	559	303	132	436	95	16	111	200	80	280
1981	224	90	314	325	153	478	60	22	82	-187	71	-116

In percentage terms, the European Community is unquestionably the leading single foreign entity investing in Brazil.



TABLE VI

Foreign investment in Brazil. Percentage share of total investment

COUNTRY	1978	1979	1980	1981
EEC	32,51	33,1	33,1	30,5
of which Germany	15,26	15,4	14,0	13,7
United States	27,82	27,4	28,6	30,0
Switzerland	11,85	12,0	10,1	10,2
Japan	10,21	9,5	9,9	9,4

Source: Bulletin of the Central Bank of Brazil. Offprints June 1970 to May 1982.

THE CARAJÁS PROJECT

The European Coal and Steel Community decided in July 1982, under Article 54 of the ECSC Treaty, to grant a loan of up to \$ 600 million, to be provided in instalments, to the Brazilian undertaking Companhia Vale Do Rio Doce.

This agreement is very important for both parties in that it is the first time that the ECSC has made such a large loan to a Latin American country. In so doing the ECSC is implementing one line of its economic policy, namely to diversify sources of raw materials and ensure long term supply. This agreement will secure a steady supply of iron for the European steel industry from 1985. EC Member States such as Germany, Italy, France and Luxembourg have signed bilateral agreements with Brazil for the export of 13 million tonnes of iron ore.

The Carajás project is located in the heart of Amazonia in an area very rich in minerals, which Brazil will exploit gradually. The project calls for the construction of an 890 km railway and a port, in São Luis, from which the ore will be shipped along with any products manufactured by Brazil from the ore. The total cost of the project will be \$ 4 700 million. Germany, Japan, various banking consortia and financial institutions such as the World Bank are also participating in the project in addition to the EC.

ENTRY INTO FORCE OF THE NEW FRAMEWORK AGREEMENT FOR COOPERATION BETWEEN THE EC AND BRAZIL

On 29 September this year, at the headquarters of the Council of the European Communities, H.E. Mr. Gunnar Riberholdt, the President of the Permanent Representatives Committee, and H.E. Mr. Luís A P. Souto Maior, Head of the Brazilian Mission to the European Communities, exchanged the instruments of notification and undertook the procedures required for the entry into force of the framework agreement for cooperation signed on 18 September 1980. This new framework agreement accordingly entered into force on 1 October.

As will be recalled, this agreement replaces the trade agreement between Brazil and the EC, which had been in force since 1974. It will last for a period of five years and be renewable by tacit agreement each year. It has as its objective the smooth expansion and development of commercial and economic cooperation between both parties.

In the sphere of economic cooperation, the agreement is designed to promote the development and prosperity of Brazilian and European industry. It is also expected to permit the opening up and development of new sources of supply, the expansion of exports of manufactures on both sides and cooperation in new markets.

Within this context, particular emphasis will be placed on technological cooperation and scientific progress.

In the commercial sphere, the aim of the agreement will be to expand and diversify trade to the mutual advantage of both parties.

The two contracting intended parties undertake to endeavour to reduce non-tariff barriers. It is to bring Brazilian and EC manufacturers and traders into closer contact, taking into account, of course, their respective needs in terms of resources and access to markets for finished and semi-finished products. An annex to the agreement deals with cooperation in respect of cocoa butter and instant coffee.

Lastly, as is customary, a joint committee has been set up with the aim of encouraging cooperation on both sides and following up the progress of such cooperation.

OTHER AGREEMENTS IN FORCE

The textiles agreement: this is a bilateral agreement between Brazil and the EC, negotiated in connection with the renewal of the Multifibre Arrangement within GATT.

This agreement entered into force on 1 January 1978 and will expire at the end of 1982.

Bilateral negotiations are currently in progress in order to reach an agreement for the period 1983-1988.

Lastly, an agreement was signed in 1961 between Brazil and the European Atomic Energy Community (Euratom) on the peaceful use of atomic energy. It entered into force in 1965 for a period of 20 years.

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