

22/79

BRAZIL AND THE EUROPEAN COMMUNITY

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Introduction

This information note has been prepared for the visit by Mr Wilhelm Haferkamp, Vice-President of the European Commission responsible for External Relations, to Brazil on 10-11 October.

During his visit Mr Haferkamp will have talks with the President of the Republic, Mr Joao Baptista Figueiredo and the Ministers of External Relations, Finance and Planning.

This is the third visit to Brazil by a European Commissioner, following that of Mr Rolf Dahrendorf in 1971 and Sir Christopher Soames in 1975. It illustrates the Community's desire to develop a closer partnership with Brazil and recognition of its great economic significance. The largest country in Latin America, with a population of nearly 120 million, Brazil wields considerable influence not only in Latin-American affairs but also in the developing world and in the dialogue with industrialized countries. In addition Brazil has strong commercial ties with the Community, its biggest market taking 30% of exports. On the other hand with investments totalling USD 4 500 million, the Community is the main foreign investor in Brazil.

Mr Haferkamp's visit coincides with a meeting of the EEC-Brazil Joint Committee, set up under the 1974 Trade Agreement, in Brasilia on 11-12 October, which will be inaugurated by Vice-President Haferkamp and the Brazilian Minister of External Relations, Mr Ramiro Saraiva Guerreiro. The purpose of the meeting is not only to review trade between the two sides and discuss measures to increase the flow of goods but also to examine the possibility of a new and broader economic and commercial cooperation agreement. Brazil first raised the idea at the end of 1977 and exploratory talks began in 1978.

These were concluded in July 1979 after the new Government had confirmed the interest of the preceding Government in this agreement.

Trade relations

The European Community is Brazil's most important export market taking over 30% of its world exports compared with only 18% by the USA. Other Latin-American countries, Eastern Europe and Japan are Brazil's other major export markets. In 1978 Brazilian exports to the Nine were worth USD 3 500 million making it the Community's sixteenth largest supplier.

Table I
The Community trade with Brazil

(in million EUA)¹

Year	Imports	Exports	Balance
1958	321	311	- 10
1965	567	203	- 364
1968	702	551	- 151
1970	1 056	710	- 346
1971	1 056	964	- 92
1972	1 345	1 202	- 143
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	- 1 240
1978 ²	3 014	2 116	- 898

Source: Eurostat.

¹ European unit of account

² Provisional figure.

Table II
Geographic structure of Brazil's external trade balance

(in million USD)

	1972	1973	1974	1975	1976	1977
Total	- 792	- 800	- 6 194	- 4 903	- 3 375	- 1 090
of which:						
I <i>Developed areas</i>	- 663	- 743	- 3 854	- 3 735	- 983	+ 1 059
of which:						
USA	- 405	- 994	- 1 712	- 2 053	- 1 279	- 472
Japan	- 186	- 219	- 807	- 585	- 340	- 252
EC-9	- 109	+ 307	- 992	- 942	+ 405	+ 1 372
Others	+ 37	+ 163	- 343	- 155	+ 231	+ 411
II <i>State-trading countries</i> ¹	+ 189	+ 339	+ 251	+ 575	+ 657	+ 772
III <i>Developing countries</i>	- 305	- 314	- 2 523	- 1 854	- 3 146	- 2 986
of which:						
Latin America ²	+ 26	- 20	- 154	+ 442	- 65	+ 40
Others	- 331	- 294	- 2 369	- 2 296	- 3 081	- 3 026

Source: MF—Direction of Trade.

¹ Including Cuba.

² Nineteen continental countries plus Haiti and Santo Domingo.

Brazil's main exports to the Community are green coffee, soya cake, soya beans and iron-ore which together account for 56% of its exports to the Nine. Between 1975-78 coffee prices have tripled, mainly due to poor Brazilian crops, which has meant that despite a decrease in volume the export value has risen to about USD 1 000 million. Soya bean exports have also fallen in volume but soya-cake exports have substantially increased over the past three years. Iron-ore exports have shown little change.

In recent years Brazil has appreciably increased its worldwide exports of processed and manufactured goods. In 1978 these exceeded the value of commodity exports for the first time. With regard to trade with the European Community, the share of industrialized products (i.e. processed agricultural goods and manufactures) exported by Brazil, rose from 16% in 1970 to 27% in 1977 of its total exports.

With the European Community, Brazil enjoyed a substantial trade surplus amounting to over USD 1 000 million, in 1977 and 1978. This is over double the 1976 surplus and in striking contrast to Brazil's overall trade deficit. Brazil's trade surplus with the Community helps to pay for its oil import bill.

One-quarter of Brazil's imports originate in the European Community. Brazil's main imports from the Nine are machines and transport equipment. The strict Brazilian import regime has made it rather difficult in recent years for Community exporters to penetrate the market and the value of the Community's exports has actually fallen.

1973 Trade Agreement

A three-year non-preferential Trade Agreement between the Community and Brazil was signed in December 1973 and came into force in August 1974. The main aim of the Agreement is to develop trade and economic relations within a contractual framework.

Since August 1977 the Agreement has since been automatically renewed on a yearly basis.

Besides the usual general provisions concerning trade, like for instance, the most-favoured-nation clause or the non-discrimination over liberalization, the Agreement carries more specific provisions intended to facilitate Community imports of cocoa-butter, soluble coffee extract and beef and veal. Regarding cocoa-butter and soluble coffee extract, these products were included in the scheme of generalized preferences applied by the Community in favour of the developing countries.

For Community exports to Brazil, certain provisions in the Declaration attached to the Agreement are aimed at easing shipment conditions; this involves mainly the provisions concerning the fixing of customs values in Brazil and the running of Brazilian ocean transport.

The Agreement also provides for both sides to get cooperation underway in agriculture and the marketing of products enjoying concessions. Stewardship of the Agreement rests with a Joint Committee which indeed will meet at Brasilia on 11 and 12 October, one of whose tasks will be to look for ways and means to foster the development of economic cooperation between the EEC and Brazil.

Generalized System of Preferences (GSP)

Brazil is the second most important utilizer, after Yugoslavia, of the Community's GSP. Being more industrially advanced than most other developing countries it is better able to take advantage of the concession offered to exports of manufactured and semi-manufactured goods.

About 50% of Brazilian exports to the Nine enjoy concessional terms. This includes 10% which are imported by the Nine under the GSP and 40% which enter duty free. In 1977 the Community imported USD 1 600 million worth of Brazilian goods duty free and USD 510 million worth under the GSP.

However, Brazil is far from taking full advantage of the advantages offered. In 1977 it used only 40.6% of the potential USD 1 250 million worth of concessions available under the GSP.

Euratom Treaty

An Agreement was signed in 1961 between the European Atomic Energy Authority (Euratom) and Brazil concerning the development of nuclear energy for peaceful purposes. The Agreement came into force in 1965 and is due to expire in June 1985.

1978 Textiles Agreement

In the autumn of 1977 the Bilateral Textiles Agreement between the European Community and Brazil was renewed within the framework of the GATT Multifibre Arrangement. The Agreement came into force on 1 January 1978 and applies to the end of 1982. The Agreement was one of a series the Community concluded with textile producers with a view to maintaining stable flows of exchange without preventing a certain continuous growth of exports by foreign producers.

The Agreement covers thirteen textile products, including four sensitive items (cotton yarn, cotton fabrics, tee-shirts and trousers) for which import quotas have been fixed. The quotas are much larger than Brazilian exports in recent years. According to the latest estimates the only quota Brazil will substantially use in 1979 is cotton yarn. The main Community importer is the Federal Republic of Germany which accounts for nearly half the Community's imports.

1979 Steel Agreement

Since 1976 Brazil has become the Community's principal foreign supplier of pig-iron; in 1977 its exports to the Nine in this sector reached 400 000 tonnes.

Through an exchange of letters (26 March 1979) the European Coal and Steel Community concluded an agreement regularizing trade in steel products for the year 1979. This agreement appears to function to the satisfaction of both partners. Contact procedures followed in the framework of the day-to-day management of this agreement have, moreover, allowed certain minor problems to be resolved.

Investment

Apart from trade, Community countries have major investments in Brazil. According to Brazilian sources, the Nine's investments at the end of 1978 amounted cumulatively to USD 4 500 million, making them the principal foreign investor. This represented 32% of foreign investments totalling USD 13 700 million.

The other main investors are the USA (USD 3 800 million), Switzerland (USD 1 600 million) and Japan (USD 1 400 million).

In a unilateral declaration attached to the 1973 Trade Agreement Brazil stressed that foreign capital will continue to play an important role in Brazilian economic development. It will enjoy the same guarantees against nationalization and other risks as private Brazilian capital. The declaration adds that foreign private investment could lead to greater transfers of technology and increased Brazilian imports of capital goods.

The declaration concludes by expressing the desire to intensify mutually beneficial cooperation with Community investors.

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