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THE EUROPEAN COMMUNITY AND BRAZIL

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This note has been drawn up on the occasion of the signature of the Framework Agreement on Trade and Economic Cooperation between the European Economic Community and the Federative Republic of Brazil. This Framework Agreement will replace the EEC/Brazil Trade Agreement which has been in force since 1974.

Introduction

Historically, Brazil has had close political, economic, cultural and human links with the various countries of the European Community. Today, the European Community as such is Brazil's largest trading partner in the world (taking 30% of its exports) and its main source of foreign investment (worth approximately 4,500 million dollars). The conclusion of this first Framework Agreement on Trade and Economic Cooperation between the two partners paves the way for considerable expansion and diversification of their relations in the future.

Geographically speaking, Brazil is the world's fifth largest country and accounts for half of the land-mass of South America. With its fast-rising population (currently 120 millions) and rapidly expanding economy, Brazil will no doubt become one of the Community's most important partners before the end of this century.

Relations between the EEC and Brazil

Three European Commissioners have visited Brazil over the last few years : after visits by Mr. Ralph Dahrendorf in 1971 and Sir Christopher Soames in 1975, Mr. Wilhelm Haferkamp visited the country on 10 and 11 October 1979. This shows the Community's desire to have closer links with Brazil, a country whose economic importance is fully appreciated.

Mr. Haferkamp's visit coincided with a meeting of the EEC/Brazil Joint Committee, set up under the 1974 trade agreement, which took place in Brasilia and was opened by Vice-President Haferkamp and the Brazilian Minister for Foreign Affairs, Mr. Ramiro Saraiva Guerreiro. The purpose of the meeting was not simply to monitor the way in which the agreement was working, but also to look into the possibility of increasing trade. The idea of a new economic and trade cooperation agreement was put forward by Brazil at the end of 1977 and exploratory talks began in 1979. They were concluded in July 1979, after the new Brazilian Government reaffirmed the interest of its predecessor in this agreement.

In February 1980, the Council authorized the Commission to begin negotiations and the first round took place on 17 March. The negotiations continued on 15 April and the Framework Agreement on trade and economic cooperation was initialled on 18 April.

Trade relations

The European Community is Brazil's largest export market, since it absorbed 30% of Brazil's world exports in 1976, 32% in 1977 and 30% in 1978, compared with 18% for the USA in 1976 and 1977 and 23% in 1978. However, imports from the USA are slightly higher than those from the Community (1976 : 23% and 20%; 1977 : 20% and 19%; 1978 : 21% and 19% respectively). Other Latin American countries, Eastern Europe and Japan are

the other main foreign markets.

In 1978, Brazilian exports to the Nine were worth 3,000 million EUA, rising to 3,600 million in 1979, whereas the EEC's exports to Brazil remained more or less constant, hence the Community's trade balance with Brazil is generally largely in deficit - more than 1,000 million dollars over the last three years.

TABLE I

The Community's trade with Brazil (in millions of EUA) *

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	3 048	2 117	- 931
1979	3 602	2 373	- 1 229

Source : Eurostat

* EUA : European Unit of Account

Brazil has increased its exports to the Community more than any other Latin American country. The main commodities exported by Brazil to the Community in 1979 were, in order of importance : oilseed cakes (soya) (670 million EUA), iron ore (560 million EUA), coffee (487 million EUA), tobacco (136 million EUA), wood and charcoal (128 million EUA), cocoa (12 million EUA) and cotton (101 million EUA).

In recent years, Brazil has considerably developed its exports of finished and industrial products. In 1978, for the first time, their value exceeded that of raw materials exports. Brazil has also become a significant exporter to the Community of industrial goods (mechanical equipment, shoes, engines, clothing, etc.).

Brazil represents Latin America's biggest market for the Community, since it accounted for 23.3% of its exports to that region in 1978. The main products exported to Brazil in 1979 were : chemical products, electrical and non-electrical machinery, rolling mills, plastics, fertilizers, combustion engines and various products from the chemicals sector.

At the moment, the strict rules applying to exports to Brazil, established because of balance of payments problems, make it difficult for European exporters to penetrate the market.

TABLE II

The geographical structure
of Brazil's trade balance

(in millions of US dollars)

	1972	1973	1974	1975	1976	1977	1978
Total	- 792	- 800	-6 194	-4 903	-3 375	-1 090	-2 443
including :							
I Industrialized countries	- 663	- 743	-3 854	-3 735	- 983	+1 059	- 210
including :							
USA	- 405	- 994	-1 712	-2 053	-1 279	- 472	- 425
Japan	- 186	- 219	- 807	- 585	- 340	- 252	- 675
EEC (9)	- 109	+ 307	- 992	- 942	+ 405	+1 372	+ 846
Others	+ 37	+ 163	- 343	- 155	+ 231	+ 411	+ 44
II State trading countries (1)	+ 189	+ 339	+ 251	+ 575	+ 657	+ 772	+ 541
III Developing countries	- 305	- 314	-2 523	-1 854	-3 146	-2 986	-2 869
including :							
Latin America (2)	+ 26	- 20	- 154	+ 442	- 65	+ 40	+ 133
Others	- 331	- 294	-2 369	-2 296	-3 081	-3 026	-3 002

Source : IMF - Direction du Commerce (Direction of Trade)

(1) Including Cuba

(2) 19 countries plus Haiti and Santo-Domingo

Agreements between the Community and Brazil

1973 - Trade Agreement

A three-year non-preferential trade agreement was signed between the Community and Brazil in 1973 and came into force in 1974.

The main aim of the agreement was to develop trade and economic links within a contractual framework.

Since August 1977, the agreement has been prolonged automatically on an annual basis. It will be replaced by the new Framework Agreement which has recently been signed.

The Generalized System of Preferences (GSP)

Brazilian exports which were covered by the Community GSP totalled 446 and 485 million dollars in 1977 and 1978 respectively. In 1977, these exports were made up of 224 millions in agricultural products, 19 millions in textiles and 184 millions in industrial products; in 1978, the figures were 263 millions, 9 millions and 214 millions respectively. Brazil is responsible for some 10% of all exports entering the Community under the GSP and is the second largest user of the scheme after Yugoslavia.

1961 - Euratom Agreement

In 1961, an agreement was signed between the European Atomic Energy Community (EURATOM) and Brazil, dealing with cooperation on peaceful applications of nuclear energy. The agreement came into force in 1965 for a duration of 20 years.

1978 - Textiles Agreement

In the Autumn of 1977, a bilateral agreement on textiles was negotiated between the Community and Brazil in connection with the renewal of the GATT Multifibres Arrangement. The agreement entered into force on 1 January 1978 and will expire at the end of 1982. It is one of a series of agreements concluded by the Community with certain textile producers with a view to maintaining stable trade flows, whilst at the same time allowing for a measure of growth in foreign producers' exports.

The agreements covers 114 textile products and provides for voluntary restraint of exports in those cases where a limit is imposed. Thus, the agreement is managed by the exporting country, although the Community also participates in the management via a system of double-checks on its operation. Among the products in question, 14 are subject to Community import quotas. In addition, 4 of them are sensitive articles (cotton yarn, cotton fabric, T-shirts and trousers). To date, the quotas are larger than Brazilian exports over the last few years. The main importer in the Community is the Federal Republic of Germany, which takes almost half of the Community's imports in this sector.

1980 - New Framework Cooperation Agreement

This agreement is one of a new group of agreements which the Community has worked out in recent years and which contribute to the intensifying of its relations with developing countries. Another example is the agreement concluded with Mexico in 1975; a further,

similar agreement is soon to be drawn up with the Andean Group countries.

The Community and the Federative Republic of Brazil intend to consolidate and diversify their trade and economic relations in order to develop their respective economies and standards of living; they propose to do this via pragmatic and open-ended cooperation.

As regards the provisions on trade, leaving aside the most favoured nation clause, the two contracting parties undertake to promote trade by endeavouring to remove all non-tariff and para-tariff barriers opposing it. In particular, they will seek to pursue a policy aimed at improving commercial transactions and at bringing together producers and traders in the two regions, whilst taking account of respective requirements as regards access to resources and access to markets for semi-finished and finished products.

Economic cooperation is intended especially to be beneficial to the prosperity of the respective industries and to open up new markets. The two parties will also endeavour to cooperate in the field of science and technology, in the energy sector and in agriculture. Moreover, they will attempt to provide conditions which facilitate the expansion of investments on an advantageous basis for each of the parties concerned. An appendix to the agreement deals with cooperation in the field of cocoa butter and soluble coffee.

Mutually satisfactory solutions will be sought as regards sea transport between Brazil and the Community and its Member States. A separate protocol has been concluded between the ECSC and its Member States and Brazil.

A Joint Committee has been established and its main task will be to monitor the various forms of cooperation between the two parties.

The agreement has been concluded for a period of 5 years and it may be extended annually.

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