

# Brazil and Europe towards 2015

**Susanne Gratius**

**>>** The presidency of Dilma Rousseff could open a new stage in the cordial but distant relations between Brazil and Europe. Firstly, both have committed to signing a free trade agreement between Mercosur and the European Union (EU) in 2011. Secondly, the EU has announced that it will deepen relations with its strategic partners, Brazil included. Thirdly, the Bulgarian origins of the Brazilian president, her interest in energy matters, and her sensitivity to human rights promise a greater emphasis on Europe, which during the Lula Government occupied a secondary plane. Between now and 2015, when Dilma Rousseff will conclude her term, both parties should convert their relationship into a strategic one based on shared interests and values, and greater coherence between different areas of cooperation. Three windows of opportunity have opened. In the bilateral sphere, a greater convergence in renewable energies beckons. At the interregional level, a formula needs to be found for a free trade agreement to be signed. In terms of the global agenda, Brazil and the EU could strengthen cooperation in Africa and adopt closer positions on matters of democracy and human rights.

## THE EU'S DECLINE IN THE NEW BRAZILIAN FOREIGN POLICY

The global rise of Brazil is a reality. During the two Lula terms of office, the Brazilian economy grew by more than 27 per cent, including by 7.5 per cent in 2010. If this trend continues, by 2015 Brazil will not be the eighth but rather the sixth economy in the world, replacing the United Kingdom. The country's rise has been possible thanks to economic stability, political continuity and the diversification of foreign relations.

## HIGHLIGHTS

- In the last few years Brazil has diversified its priorities and revised the basis of its foreign policy.
- It is important to harmonise the strategic association with the interregional and bilateral dimension of relations between Brazil and the EU.
- Under Dilma's presidency there are more favourable perspectives for global cooperation on the basis of shared values.
- Over the next four years Brazil and the EU should sign a free trade agreement, focus on renewable energies as a key bilateral matter and enhance cooperation on global issues.

»»»»» The eight years of Lula have changed the foundations of Brazilian foreign policy and its traditional focus on Argentina, the US and the EU:

- Since 2009, China is Brazil's main export destination and its third biggest trading partner (accounting for 12.7 per cent of Brazil's total trade, compared to 13.4 per cent with the US). Over the last few years, exchanges with India have quadrupled and Asia now represents 20 per cent of Brazil's trade, almost the same percentage as the EU.
- Though insignificant in the past, South America today contributes one fifth of the country's trade, and Brazil's foreign direct investment (FDI) is concentrated in the ten neighbouring countries grouped in Mercosur and Unasur.
- Lula 'rediscovered' the African continent, creating new embassies and signing cooperation agreements with several African states. He also strengthened relations with the Arab League and with Iran.
- Accounting for more than 16.2 per cent of Brazilian exports, BRIC and IBSA represent new economic alliances and policies which serve to stimulate bilateral cooperation and raise the quota of global power.

Brazil's new South-South policy has served to deepen both its relations with authoritarian countries like China, Iran, Russia and Venezuela, as well as democratic allies India and South Africa. This approach indicates a distancing from the country's traditional vision, anchored in the Atlantic axis. In addition, it has entailed a decline in trade relations with the EU, whose imports and exports with Brazil fell by 23.7 per cent in 2009. This is due to both the financial crisis and the failure of free trade negotiations with the EU, which have led Brazil to seek out alternative markets.

Dilma Rousseff will not change the priorities set out by Lula, which relegate Europe to a secondary plane, since they have provided the platform for the international and regional rise of the South

American giant. In Rousseff's first speech as president, the EU appeared in last place. Nor does the new minister of Foreign Relations, Antonio de Aguiar Patriota, have many European credentials; amongst other positions, he has been ambassador in Washington and also served in the Brazilian delegations in Geneva, Caracas and Beijing. However, Dilma Rousseff needs to put her own stamp on her foreign policy and balance the growing influence of Asia. From this perspective, developing the potential which the bilateral, interregional and global relations between Brazil and the EU-27 offer is of mutual interest.

### **BRAZIL AS BILATERAL PARTNER OF THE EU**

The scant attention which Europe receives in Brazil's foreign policy contrasts with its economic weight; the EU is Brazil's main trading partner and its primary investor, accounting for 22.9 per cent of its total trade. For the EU, Brazil constitutes its main Latin American market. In 2009, it was its tenth trading partner and a key supplier of agricultural products, which represented 12.4 per cent of its imports. Further, Brazil is the BRIC country which has received most direct investment from Europe.

In 2007, the EU defined a strategic bilateral association with Brazil, which includes annual summits and an action plan. The objective was to respond to the stagnation of negotiations with Mercosur and to Brazil's regional and global weight. Brazil is a strong bilateral actor which tends to act alone (when increasing its quota in the IMF, or when demanding a permanent seat on the Security Council), or at times in concordance with the members of Mercosur (in the WTO) or Unasur (to resolve regional conflicts).

One of the results of the four Brazil-EU summits to date is the commitment to greater cooperation on alternative energies and climate change. The relationship is complementary: the EU offers green technology (wind and solar), Brazil bio fuels, and both push towards a global system against climate

change. Brazil has the world's greatest surface area of tropical forests and uses 45 per cent renewable energies on account of the use of bio fuels. The EU has committed to using 20 per cent renewable energies and 10 per cent bio fuels by 2020. Consequently, Brazil is an indispensable partner for the use of clean energies, which currently represent only 7.8 per cent of European energy consumption. As for climate change, both Brazil and Europe defend similar positions and Germany is one of the main contributors to the Amazon Fund. Having been responsible for energy matters on three occasions, Dilma Rousseff has extensive experience in this area. Specific projects and a working agenda

need to be defined by 2015 in this largely unexplored cooperation area.

Another challenge for the bilateral relation is harmonising the new Brussels-Brazil relationship with that of EU member states. In this regard, Germany (2002) and

Spain (2003), amongst others, have established strategic associations with Brazil. As for national agendas, Brazil's strong economic and environmental relations with Germany are important to highlight; as is the Latin American and economic agenda it shares with Spain; its strong military cooperation with France; and cultural ties with Portugal. If the EU wants to present itself as a more unified actor to Brazil, which to date has perceived Europe from a bilateral perspective, these special relations need to be included in the EU-Brazil strategic association.

#### **THE INTERREGIONAL DIMENSION: IS AN EU-MERCOSUR AGREEMENT VIABLE?**

Formulating a more coherent policy also requires harmonising the strategic association with the interregional format. First of all, this implies concluding the Mercosur-EU

negotiations, which resumed in May 2010. It remains a paradox that the EU has signed free trade agreements with Central America, Chile, Colombia, Mexico and Peru, but not with its main Latin American partner. This is due both to the format of EU-Mercosur negotiations and also to the longstanding dispute over agricultural subsidies, industrial tariffs and the service sector.

The fact that Europe plays a secondary role in Brazilian foreign policy is closely related to the failure of trade negotiations. It was from 2003-4 – when it was decided to freeze the process and delegate it to the WTO – that Brazil began to build alternative alliances with other countries. The opportunity had already been lost once in 1999, when Spain pushed other countries to celebrate a European-Latin American summit in Rio de Janeiro instead of an exclusively EU-Mercosur summit, as initially proposed by France. If the latter idea had prospered, an agreement might have been signed by now.

Today, the problems are the same but the context has changed. First of all, the EU-Mercosur format no longer responds to South American reality, which privileges the political agreement of Unasur ahead of Mercosur's economic agenda. The forthcoming integration of Venezuela, which is reluctant to sign free trade agreements, will not facilitate the process either. If the inter-block format has been broken with the Andean Community, why not apply the same lesson to Mercosur, which is far from being the common market which its acronym promises? Up until now, political risk has won out over interests; Brazil fears losing credibility as a regional power committed to integration and the EU as exporter of its own model. However, if the interregional formula does not work, the alternative would be to negotiate a bilateral agreement, following the example of other strategic partners of the EU (India, Mexico, South Africa).

Secondly, the economic outlook has changed. Brazil's GDP is greater than that of South Korea, India or Russia. Furthermore, China has entered



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»»»»» the South American market by signing several free trade agreements with Latin American countries, Chile amongst them, an associated country of Mercosur and member of Unasur. Due to the economic crisis, the EU has to open up new markets and, from this perspective, Brazil's growth and the entrance of China offer new incentives for a free trade agreement. Brazil also needs to offset its relations with China and seems less reluctant to lower industrial tariffs and include the service sectors.

Thirdly, better perspectives have opened up in the agricultural sector, which represents almost half of Brazil's exports to the EU and which has been the major obstacle for an agreement. From 2013, the EU-27 will reform their Common Agricultural Policy (CAP), including sensitive products like sugar, beef, vegetables, milk and wine. As the trade dispute does not encompass more than 14 per cent of exchanges – and taking into account that the WTO allows for the temporary exclusion of 10 per cent of products in free trade agreements – it should not be too difficult to secure a compromise. If a consensus with Mercosur is not achieved, the Andean Community formula could be imported, establishing an agreed framework with the bloc, and signing bilateral free trade agreements.

**THE GLOBAL TEST OF SHARED INTERESTS AND VALUES**

For the EU, strategic associations are an instrument for strengthening an efficient multilateralism. In principle, Brazil is the ideal partner for the EU. It represents the same values (democracy, peace, development), is a civilian power and believes in a multilateral system based on rules and institutions. Nevertheless, in practice, Brazil and the EU have rarely played the same field, nor have they voted in the same way in the UN.

Four examples are worth citing. Firstly, the vote on Iran in the Security Council in June 2010 (Brazil voted against sanctions, the EU in favour).

Secondly, the expansion of the Security Council, with Brazil claiming a permanent seat like Germany. Thirdly, the distribution of power in the IMF, where Brazil put pressure along with other BRICs to widen its quota, and an over-represented European Union gave up some of its quota. Fourthly, in the WTO, where Brazil regularly denounces the EU's environmental standards as protectionism in disguise and demands a reduction of the emissions of the traditional powers without making too many concessions in the preservation of tropical forests.

Despite diverging on these matters, two opportunities for global cooperation have opened up. The first is development cooperation, particularly in Sub-Saharan Africa. Whilst the EU will spend fewer and fewer resources on cooperation, Brazil is one of the donors of the future. Just like the EU, Brazil's cooperation and its agency, ABC, is concentrated in Africa (23 signed cooperation agreements), a continent with which it shares strong cultural ties. The joint action of the EU and Brazil in Africa could be profited from to establish triangular cooperation projects with the European Commission, following the example of Germany and the United Kingdom. Likewise, Brazil and the EU could coordinate their activities in matters of conflict resolution.

The second opportunity resides in the sphere of democracy and human rights. Though strong relations with China will be maintained for economic reasons, there are signs that Dilma Rousseff could modify Lula's policy of proximity to non-democratic countries like Cuba, Iran, Russia and Venezuela. Having been a political prisoner during the military dictatorship, the president has a personal commitment to human rights and has already affirmed that these will have a central place in her foreign policy. Dilma has rejected medieval practices like the stoning of women, in allusion to the case of Shakiné Mohammadi Ashtiani, condemned to death in Iran, and has hinted that she would have voted in favour of the latest United Nations resolution on human rights in Iran. This position chimes

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with national polls, which show that 65 per cent of Brazilians are in favour of sanctions against Iran. As for Cuba and Venezuela, it seems unlikely that her relationship with presidents Castro and Chávez will be based on the personal friendship which characterised Lula's policy, for the simple reason that she is a woman. Under Dilma Rousseff's presidency, more favourable perspectives open up for an alliance of values and greater voting agreement in both the Human Rights Council and the Security Council, where Brazil coincides with Germany and Portugal as temporary members in 2011, along with permanent members France and the United Kingdom.

### THE ROAD TOWARDS 2015

In the next four years, Brazil and the EU have three important tasks ahead of them: signing a free trade agreement, making renewable energies a key bilateral matter, and enhancing cooperation on global issues. Intensifying this strategic agenda is of mutual interest. For Europe, the special relation with Brazil reflects the intention to integrate the policies of member states with those of Brussels and build a special relationship with the only power in the Americas able to emerge from Washington's shadow. Brazil uses its relations with the EU to continue diversifying its foreign policy and as a counterweight to China.

The example of the EU's most recent strategic partners indicates that free trade agreements form part of strategic associations. If between now and 2015, Brazil and the EU do not resolve their trade differences, either by means of an interregional or bilateral agreement, their economic relations will become irrelevant. Brazil is Mercosur's main engine and, consequently, the bilateral agenda must include trade questions. Furthermore, the special relations Germany, Spain, France and Portugal have with Brazil should not be treated separately, but instead within the strategic association. In a global context, both Brazil and the EU should open up a dialogue at the same level, reaching

consensus on positions and tackling differences in relation to Iran and other conflicts. In this process, Africa should occupy a bigger space in relations.

For this to occur, mutual perceptions need to change. Brazil sees the EU from the perspective of its relations with certain countries, while for a long time the EU has looked on Brazil not as the big power it is, but just another Mercosur or Latin American nation. These perceptions continue to weigh heavily in the relation and are an obstacle to its full development. Finally, Spain's traditional stamp on European-Latin American relations has prejudiced Brazil in favour of Mexico. The latter, which has a free trade agreement and shares strategic association with the EU, has been Europe's main partner in Latin America. Correcting these imbalances is a primary challenge which the EU faces in its complex and, so far, not very strategic relation with Brazil.

*Susanne Gratius*  
is a senior researcher at FRIDE

**e-mail: [fride@fride.org](mailto:fride@fride.org)**  
**[www.fride.org](http://www.fride.org)**

