

## The Sixth EU-Brazil Summit: business beyond the usual?

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» After much foot-dragging and hesitation, the European Union (EU) and Brazil may be inching towards a new level of cooperation. Both sides would benefit greatly from an enhanced partnership. Following over forty years of diplomatic, political and economic engagement, in 2007 Brazil became a 'strategic' partner of the EU. For some time now, observers have been expecting significant progress in the partnership. Yet, controversies stemming from the legacy of European colonialism and its perception in South America, from ideological differences and, last but not least, from the prolonged impasse in negotiations on a free trade agreement between the EU and the Southern Common Market (MERCOSUR), have so far led to limited results.

Things may be changing. The sixth EU-Brazil Summit has brought about a sense of renewed confidence and some more concrete deliverables. Several factors have contributed to this, including the global financial crisis and its domino effects, which are of Brazil's concern; the need for financial recovery and renewed growth in Europe; the demand for multilateral security initiatives globally given the US's reluctance to act as a unilateral security provider; and the launch of new regional projects in South America.

### HIGHLIGHTS

- After years of limited progress, the EU-Brazil partnership may be inching towards a new level of cooperation.
- The economic crisis has prompted both sides to seek ways to enhance trade and investment.
- Security issues will provide the testing ground for closer consultation and coordination between the two partners.



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The EU-Brazil Summit was held in Brasilia on 24 January 2013 to coincide with the first European Union-Community of Latin American and Caribbean States (CELAC) and the seventh EU-LAC summit held on 26-27 January. Arguably, the partners aimed to counter – on the symbolic level, at least – accusations of ‘privileging’ their bilateral partnership over their commitment to inter-regionalism and regional cooperation. The main areas included in the summit’s final statement can be divided into three categories. First, recurrent global issues, such as the reform of the international financial system, climate change and nuclear non-proliferation. Second, regional issues, which have traditionally been limited to the need to improve EU-MERCOSUR ties, but that now include new regional developments such as the establishment of CELAC. And third, bilateral issues, where some progress can be detected compared to the early stages of the partnership, notably in security affairs.

### **CHANGING DYNAMICS AND KEY ISSUES IN EU-BRAZIL RELATIONS**

Since the establishment of the strategic partnership, much has changed on the domestic, regional and international fronts for both partners. In Brazil, the implementation of successful social policies and sound macroeconomic strategies has led to continuous – albeit currently slowing down – growth since 2007. A slight 6-month slump in 2009 was quickly tackled by the country’s Central Bank. Nowadays, Brazil has single digit inflation rates, foreign reserves amounting to over the equivalent of one year’s imports, and significantly lower public debt. Notably,

in 2012 the country became a creditor of the International Monetary Fund (IMF).

With almost one quarter of its population coming out of extreme poverty and moving into the country’s new middle class, Brazil has also grown as a consumer market and has become the fourth biggest receptor of foreign investment, according to the United Nations Conference on Trade and Development (UNCTAD). Brazilian investments abroad have also expanded, as well as its contribution to global development aid. On the regional level, Brazil has continued to support cooperation initiatives through its National Development Bank (BNDES) and plays a leading role in the troubled MERCOSUR, the recently-established Union of South American Nations (UNASUR) and the newly-founded CELAC. Internationally, the global financial crisis has enhanced Brazil’s influence through the G-20 and has increased cooperation within the BRICS format with Russia, India, China and South Africa. As a non-permanent member of the United Nations Security Council (UNSC), in 2010 and 2011 Brazil assumed a high profile on issues such as the Arab Spring, the norms of military intervention and nuclear proliferation. Finally, as the host of the Rio +20 United Nations Earth Summit in 2012 and an active participant and mediator in the annual Conference of the Parties of the UN Convention on Climate Change, Brazil has played a key role in multilateral climate diplomacy.

Meanwhile, the EU has had to face turbulent years. The global financial crisis has hit the EU27 hard, generating political and economic instability in Southern European countries, severe drops in trade levels and prolonged discussions about the future architecture and di-



rection of integration. This internal political context has inevitably affected the pursuit of a stronger international role for the Union under the new Lisbon treaty. The EU's neighbourhood has grown more unstable after the Arab Spring and EU member states still struggle to define common positions, whether on the use of force or on their relations with so-called strategic partners. At the same time, however, the European External Action Service (EEAS) is taking form, the Union remains the world's biggest trader and donor, and it has begun to take a more proactive role in its neighbourhood.

The evolution of Brazil's and the EU's international positions arguably creates more scope for engagement. In an uncertain political and economic international system, the two parties share a number of common interests. Brazil and the EU aim to advance their partnership by deepening cooperation in the key fields of trade and investment; business; energy and climate; security and conflict prevention; humanitarian and development aid; education, science and technology; migration and regional integration. In particular, four areas were prominent on the agenda of this year's summit and will have a significant impact on the evolution of the relationship.

## TRADE AND INVESTMENT

The EU is Brazil's main trading partner, representing approximately 23 per cent of total trade, and the country's biggest foreign investor.

For the EU, Brazil is an important supplier of agricultural products and a destination for industrial goods. Protectionism on both sides has prevented an EU-MERCOSUR Association Agreement.

The financial crisis has been another deterring factor in deepening trade and investment relations. The crisis has not only reduced EU trade significantly, but since January 2012 has also begun to affect Brazil, which has registered its biggest trade deficit in 39 years due to a drop in the prices of commodities and declining exports to the EU and China. Overall, in the past year declining growth rates, high welfare policy costs and a dependence on commodity-led growth have begun to raise concerns in the Brazilian government.

This was reflected in this year's EU-Brazil Summit where, contrary to previous years, preoccupations regarding the crisis were equally shared by both parties. As a result, discussions were dominated by a strong focus on how to boost trade and investment in both directions, leading to the decision to set up an ad hoc bilateral committee to evaluate the potential for future mutual investments. In fact, Brazil has recently become the fifth largest investor in the EU. The relationship has thus changed from an asymmetric one, with Brazil on the receiving end of EU investment, to a partnership where both sides seek to expand their financial activities. The EU-Brazil Business Summit, which took place a day before the political summit, also played an important role in this regard. The statement by business leaders included, inter alia, an emphasis on public-private partnerships and (as in the past) the urgent need to conclude EU-MERCOSUR negotiations.

Brazilian diplomacy has been pushing hard to advance with the Association Agreement. MERCOSUR countries, including Argentina, agreed at the EU-CELAC Summit to present a trade proposal in October 2013. But given the group's internal dealings – with Paraguay's suspension until it holds democratic presidential



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elections, the entry of Venezuela (which has traditionally opposed trade liberalisation) and Bolivia's application for full membership –, a consensual proposal may be hard to reach. In addition, Argentina's proposal to create an ad hoc MERCOSUR internal committee to formulate the bloc's position vis-à-vis the EU could make matters even more difficult.

Nevertheless, this may be the last chance to conclude a bi-regional trade agreement and consolidate the role of businesses and business associations in the partnership. The prospect of a new trade offer by MERCOSUR may create new momentum on the Latin American side. In the absence of sustained progress on the inter-regional trade agenda, however, Brazil is likely to turn to India and other Asian countries in order to diversify its trade relations, and towards new investors, such as the Gulf region, to attract investment. The EU, in turn, would pursue individual agreements with third countries, moving away from the inter-regional model. The current prospect of an EU-US Free Trade Agreement is also likely to reduce European interest in South America. A lot will depend on new business initiatives and the determination of governments on both sides to facilitate business interactions and investments.

### **GLOBAL ECONOMIC GOVERNANCE**

The global financial crisis broke out soon after the establishment of the EU-Brazil strategic partnership, inevitably occupying an important space on the agenda. Increasingly, the issue has been linked to Brazil's demand for a reform of the global financial institutions and the empowerment of the G-20. As the crisis enveloped Europe and Latin America

continued to grow, Brazil, along with other BRICS countries, became an IMF creditor. The IMF, in turn, became an intrinsic part of the crisis management mechanism in the EU's southernmost states.

Brazil believes that Europe still needs to make concessions in terms of the distribution of IMF quotas in recognition of the changing patterns of economic power. To this end, this year's summit referred yet again to the need further to reform international financial institutions. However, unlike in previous years, Brazilian emphasis seems to have shifted toward the need for sustainable and balanced global growth, reflecting a preoccupation with its own economy. The increasingly shared concern with the social implications of economic decline or slowdown is perhaps an issue that the two partners could jointly promote on the international multilateral agenda. On a more positive note, the summit discussions reflected the perception that Europe's crisis might have passed its peak. Focus on business opportunities was discernible in the decision to pursue joint initiatives in the fields of technology, aviation, agriculture and bio-fuels.

### **POLITICAL AND SECURITY AFFAIRS**

In comparison to the standstill of previous years, progress was significant regarding dialogue on security issues, including humanitarian assistance, conflict prevention and non-proliferation.

The establishment of a formal high-level dialogue on matters pertaining to international peace and security, including peacekeeping and peacebuilding, suggests a renewed will-



ingness to bridge gaps in this critical field. While in principle both Brazil and the EU favour multilateralism, support human rights and non-proliferation, their interpretations and tactics differ, which has led to serious discrepancies. The cases of Libya, where Brazil abstained from resolution 1973, and Syria and Iran, where Brazil is reluctant to consider sanctions, are a few examples.

Nevertheless, in recent years both actors have faced demands to take more responsible (Brazil) and more coordinated (EU) action in this

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field. This, among other factors, may have encouraged the partners to create a bilateral consultation mechanism. This evolution also reflects the higher degree of affinity between the EU and the Brazilian approach under President Rousseff and Foreign Minister Patriota, when compared to the rhetoric of former President Lula and his foreign minister,

Celso Amorim. Since Dilma Rousseff took office in 2011, Brazil has become more critical of human rights abuses, and has steered away from Lula's public endorsement of some authoritarian regimes. Brazilian trade with Iran, for example, has decreased by over 70 per cent. With regard to Cuba, Rousseff has maintained a cautious policy, prioritising bilateral trade and technical issues, while refraining from repeating Lula's pronouncements of friendship and political solidarity with the country's regime. Whether this is a tactical move or represents a deep normative shift, it has narrowed the gap between the Brazilian and European positions in dealing with human rights and authoritarian regimes.

Furthermore, High Representative Catherine Ashton's visit to Brasilia in 2012 evidenced a degree of alignment regarding the Arab Spring, in spite of diverging views on military intervention and regime change. At the time, Ashton and Patriota emphasised their commitment to multilateral, non-violent solutions to the conflicts in the region, mainly through the UN and further engagement of the Arab League. The emphasis on non-violence was interpreted in Brazil as an opportunity for further dialogue on the concept of 'responsibility while protecting' put forward by Foreign Minister Patriota in 2011 and 2012.

The specific references to Syria, the Middle East Peace Process, Mali, Guinea Bissau and Iran made in the latest joint statement, as opposed to the vague pronouncements of the 2011 summit, signal that there is scope for closer coordination on major security issues. The intention to increase humanitarian aid combined with the promotion of democratic processes through technical cooperation and collaboration with the local authorities in fragile states are also points of convergence between the EU and Brazil, which may lead to more trilateral and multilateral joint missions. Brazil has accumulated considerable experience in Haiti, Guinea Bissau and Namibia (including assistance with security and defence sector reform).

### COOPERATION ON DEVELOPMENT AND GOVERNANCE ISSUES

Hailed as one of the most successful achievements of the EU-Brazil partnership, trilateral cooperation for development, particularly in Africa and Latin America, is gaining further relevance. In this year's



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summit, the European Commission agreed to sign the Charter of Brasilia, which envisages future trilateral initiatives to support electoral processes in Portuguese-speaking countries. Through the Charter, the Brazilian Supreme Electoral Tribunal (TSE), the Commission and the Portuguese-Speaking African Countries (PALOP), as well as East Timor, have agreed to develop action plans, programmes and joint activities to promote the notion of citizenship and electoral participation in the PALOP. According to the provisions, the EU will be the main funder, while all three parties will provide human and material resources.

Further technical cooperation agreements regarding socio-economic issues are slowly paving the way for a renewed development approach shared by the EU, the world's largest donor, and Brazil, an emerging one. The Brazilian experience as an aid recipient and developing country, along with its particular *modus operandi* as a donor in African Portuguese-speaking countries, intersects with the EU's long history of technical cooperation in the quest for more effective aid policies. This also opens opportunities for closer ties between the EU and the Community of Portuguese

Language Countries (CPLP). Beyond Brasilia 2013: towards pragmatism?

Despite some progress, the 2013 EU-Brazil Summit has showed that issues on the bilateral agenda move from theoretical debates to concrete deliverables only slowly over the years. This is due, to a large extent, to limited trust and the need to shift the perceptions of both partners. International developments as well as non-governmental actors, particularly businesses and business associations, can play an important role in the evolution of the partnership and open up scope for progress. Cornered by the implications of the global financial crisis, both sides have been forced to undergo a serious reflection about the prospects of their respective growth strategies and the benefits of cooperation. This may lead to more mutual engagement not only in familiar low-politics areas such as education and cultural exchanges, but also in the fields of global governance reform, trade liberalisation, climate change, collective security and development.

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