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The Economic Agenda between Brazil and the EU: Prospects for a Bilateral and Global Upgrading

by Anna Ayuso and Susanne Gratius

ABSTRACT

Brazil is still the European Union's largest economic partner in Latin America, despite Europe's trade position having slightly declined following China's rise to be Brazil's main export market. The signature of the long-awaited EU–Mercosur association agreement, including free trade, would clearly improve bilateral relations and guarantee a long-term engagement of European enterprises in the Brazilian market. At the same time, both partners should push towards global economic and financial governance by creating new forums for convergence and the adoption of common positions at the World Trade Organization, the International Monetary Fund and the G-20. The bilateral, regional and international potential in an upgrading of Europe's economic relations with Brazil is relevant and should not be left unexploited.

European Union | Brazil | Mercosur | Economy | External trade | FDI

keywords

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Introduction

In the first decade of their Strategic Partnership (2007–17), bilateral and global economic cooperation between Brazil and the European Union has clearly underperformed.[1] Although Brazil is the EU's main trade partner in Latin America, and European investment stock is higher than in any other BRIC country (the others being Russia, India, and China), these economic interdependences contrast with the lack of a "free-trade-plus" agreement or a similar economic deal that could make full use of the potential of bilateral relations. Since 2007, both actors have concentrated on their own, complicated domestic agendas – and, finally, growth rates in 2017 improved (by 1 per cent in Brazil and 2.3 per cent in the Eurozone), according to the International Monetary Fund (IMF) World Economic Outlook.[2]

From a European perspective, nearly 20 years of negotiations with Mercosur (whose full members comprise Argentina, Brazil, Paraguay and Uruguay) on a free-trade-plus (dialogue and cooperation) agreement – the process started in 2000 – have represented an obstacle to trade exchange; investment; and, to a lesser extent, multilateral cooperation with Brazil in international forums like the G-20, the IMF or the Organization for Economic Cooperation and Development (OECD), to which Brazil is negotiating its accession. In terms of trade, this non-agreement and the political–economic crisis in which Brazil has been engulfed over the last few years have had a negative impact: by 2017, Brazil had fallen from eighth to

[1] Susanne Gratius, "Brazil and the European Union: From Liberal Inter-Regionalism to Realist Bilateralism", in *Revista Brasileira de Política Internacional*, Vol. 61, No. 1 (January-June 2018), http://dx.doi.org/10.1590/0034-7329201800103.

[2] International Monetary Fund (IMF), *World Economic Outlook*, April 2018, p. 14, https://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018.

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eleventh position in the list of the EU's external partners.[3]

Stop-go negotiations in the complicated EU–Mercosur process have not been compensated for by a more strategic approach in European relations with Brazil. No bilateral summit has been held since 2014. Intergovernmental paralysis has had a negative impact on a more intense relationship between companies, academic communities, political parties, non-governmental organizations (NGOs) and other civil-society representatives. Indeed, bilateral relations do not rank high on the parties' respective foreign-policy agendas. A number of factors explain this, ranging from Brazil's political crisis and uncertainties around the forthcoming presidential elections to the need for urgent reforms in the EU and Eurozone, coalition-building struggles in Germany and the EU–UK negotiations over the United Kingdom's prospective exit from the EU ("Brexit").

Nonetheless, the opportunity to relaunch Brazil–EU relations is anything but lost – and four main reasons contribute to this situation. First are higher prospects for economic growth (estimated at 2.3 per cent in Brazil and 2.4 per cent in the Eurozone in 2018, according to the IMF).[4] Second are the freezing of the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the EU and the US, which have dominated the EU trade agenda since 2013, and the decline in US–Latin American relations under President Donald Trump. Third is the Trump administration's decreasing commitment to the liberal world order, which still represents the main frame of reference for organizing international relations for both the EU and Brazil. The fourth reason is that China's increasing weight in Brazil's export markets, particularly of agricultural goods, reduces traditional EU–Brazilian tensions in this sensitive sector.

For these four reasons, the signing of an EU–Mercosur interregional free-trade agreement seems to be more feasible than it was one or two years ago. Negotiations are, in fact, well under way. In particular, the two sides have been working on improving market-access offers first presented in May 2016 (for the second time since a failed attempt in 2004) and then in three regular negotiation rounds and one at the World Trade Organization (WTO) ministerial meeting in December 2017 in Buenos Aires, under the leadership of WTO Director General, the Brazilian Roberto Azevêdo. Since the EU–Mercosur process is closely related to international trade negotiations, the period until the thirteenth G-20 summit in Buenos Aires at the end of November 2018 offers an opportunity to successfully conclude negotiations.

[3] In 2013, Brazil was the EU's eighth trading partner, accounting for a 2.1 per cent of total EU trade. In 2017, Brazil accounts for 1.7 per cent of total EU trade. European Commission Directorate-General for Trade, *Top Trading Partners 2017*, updated 16 April 2018, http://trade.ec.europa.eu/doclib/html/122530.htm.

[4] IMF, *World Economic Outlook*, April 2018, cit., p. 15.

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Both partners should use the momentum behind EU–Mercosur talks for a substantive upgrading of cooperation in such areas as renewable energy, financial stability and sustainable development, where their agendas and interests coincide. Brazil and the EU need to explore the full potential of their traditional alliance and Atlantic partnership, including the preference for multilateralism and interregionalism as instruments of convergence for global governance – particularly now that nationalist, protectionist and unilateralist trends are infusing US foreign policy.

Against this background, this paper explores the economic situations in Brazil and the EU, presents new figures on bilateral trade and investment flows, analyses EU–Mercosur negotiations, explains the limits and opportunities for multilateral economic cooperation and trade, and develops scenarios and recommendations for further progress on the economic agenda at the bilateral, interregional and global level. Based on former impact studies – a new one has been commissioned by the European Commission, but has not yet been published – the paper argues that a free-trade-plus agreement would be highly beneficial for both partners, fostering growth rates and improving economic prospects.

1. The modest results of the Strategic Partnership

More than ten years since the establishment of the EU–Brazil Strategic Partnership, the potential of their bilateral relationship remains largely unfulfilled, mostly because of the economic and political crises that both parties have recently undergone. However, now that both are experiencing economic growth again, and have returned to a more stable financial framework, there is reason to look to the future with more optimism.

The EU's gradual re-emergence from serious domestic challenges – the financial crisis, Brexit and the rise of populism – and the need to open new markets have created a favourable climate for a "comeback" for the Strategic Partnership focused on global governance and, in case a EU–Mercosur deal does fail, the signing of a free-trade-plus agreement between Brazil and the EU. In the international context, the withdrawal of the US under Donald Trump from the Trans Pacific Partnership (TPP), the stagnation of the TTIP process and the reopening of the 1994 North American Free Trade Agreement (NAFTA), as well as the alternative Chinese market for Brazilian and Mercosur agricultural goods, are further arguments for a revival of Brazil–EU economic relations. Nonetheless, Brazil's presidential elections in October 2018, with no clear favourite candidate, and the EU's institutional changes – among other proposals, the idea of a "double-hatted" EU president who represent both the Commission and the Council – after European Parliament elections in May 2019 introduce political uncertainties into an economic scenario of upgrading relations.

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In the 2000s, when former President Luiz Inácio Lula da Silva transformed Brazil into a global player and a Southern soft balancer of the United States, the EU identified the country as a hub and regional power in Latin America. In 2007, the notion that Brasília would enhance global governance, buttressing "Latin America's stability and prosperity",[5] together with trade and investment opportunities for EU companies pushed Brussels to eventually upgrade its relationship with Brazil, its last with one of the BRICS countries, into a Strategic Partnership. In this sense, the EU maintained its traditional interregional focus, which combined the promotion of regional schemes like Mercosur and the Union of South American Nations (UNASUR) while strengthening relations with a leading country such as Brazil. This approach was reiterated in the EU's Global Strategy nearly ten years later.[6]

Seven summits later, Brussels' high expectations have not been met. From a European perspective, during the thirteen years of the Workers' Party (*Partido dos Trabalhadores*, PT) governments under Lula da Silva (2003–10) and Dilma Rousseff (2011–16), Brazil distanced itself from the West.[7] Instead, it adopted a South–South approach by strengthening its alliance with BRICS partners, and particularly with China – Brazil's main export market, accounting for 21.8 per cent of total sales in 2017 (compared with Brazil's 16 per cent to the EU).[8]

Brazil is thus the EU's largest economic partner in Latin America but has neither signed a formal, bilateral association agreement nor started bilateral free-trade talks with Brussels. Despite its large potential in terms of trade and investment, the economic agenda has stagnated and the EU has lost its position as first market destination for Brazilian exports to China. Conversely, since 2013 Brazil has declined in EU external trade rankings, descending until 2017 from eighth to eleventh position – two places below India and three below South Korea.[9]

An important reason for this mutual trade diversion towards Asia – mainly China – is the difficulty of the interregional trade-negotiation format between the European Commission and EU member states, on the one hand, and Mercosur members Argentina, Brazil, Paraguay and Uruguay, on the other, which was launched in 1999 at the first EU–Latin American Caribbean (LAC) Summit in Rio de Janeiro. Thirty-two EU–Mercosur negotiation rounds on an interregional association

[5] European Commission, *Towards an EU-Brazil Strategic Partnership* (COM/2007/281), 30 May 2007, p. 8, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52007DC0281.

[6] European External Action Service (EEAS), *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the EU's Foreign and Security Policy*, June 2016, p. 37, https://europa.eu/globalstrategy/en/node/339.

[7] Oliver Stuenkel, "Identity and the Concept of the West: The Case of Brazil and India", in *Revista Brasileira de Política Internacional*, Vol. 54, No. 1 (January-June 2011), http://dx.doi.org/10.1590/S0034-73292011000100011.

[8] European Commission Directorate-General for Trade, *European Union, Trade in Goods with Brazil*, updated 16 April 2018, p. 8, http://trade.ec.europa.eu/doclib/html/113359.htm. See also Figure 6 in the Annexes.

[9] European Commission Directorate-General for Trade, *Top Trading Partners 2017*, cit.

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agreement attest to the limits of interregional "trade-plus" negotiations between unequal partners and asymmetric integration schemes.[10]

By maintaining the EU–Mercosur dialogue, Brazil and the EU have privileged form over function and assumed the costs of a non-agreement,[11] but they also demonstrate their strong commitment to regionalism and interregionalism. For these reasons, the alternative – a bilateral free-trade agreement (FTA) – has not been considered yet. In fact, bloc-to-bloc negotiations continue and have actually made some progress after the presentation of recent (2016) market-access offers.

2. Improving economic prospects

Since the last EU–Brazil summit in 2013, both parties have experienced important transformations: the EU has suffered its first multi-vector crisis – a Eurozone crisis, migration influxes and Brexit – and Brazil has ended a positive socio-economic cycle and a long period of South–South cooperation under its PT governments after the impeachment of President Rousseff in August 2016 and her replacement by the conservative Vice-President Michel Temer.

In 2017, Brazil and the EU entered a gradual process of economic recovery. After the deep recession of -3.5 per cent gross domestic product (GDP) growth in 2015 and -3.5 per cent in 2016 – and a lower per capita income of 8,650 dollar equivalent compared with 12,026 in 2014[12] – Brazil concluded the year with modest economic growth. According to IMF predictions, this growth might reach +2.3 per cent in 2018.[13] The return to a positive recovery might breathe some life into the unpopular interim government of Temer, Brazil's first president to be under investigation for corruption, whose mandate will end in January 2019. As a consequence of the economic recession and higher unemployment (12.7 per cent in 2017), poverty rates rose from 22.1 per cent in 2015 to an estimated 23.5 per cent in 2016, mainly in Brazil's traditionally poor northeast.[14] Social decline, unemployment and corruption will be key issues during the presidential campaign in 2018.

The economic and financial situation of the EU has also stabilized since the financial crisis of 2008, but structural problems persist. Further economic integration through a banking union remains paralyzed due to divergences

[10] The latest was held in Asunción from 21 February to 2 March 2018. See the European Commission website: *Latest round reports and EU proposals for the trade agreement with Mercosur*, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1769.

[11] Susanne Gratius, "Brazil and the European Union: From Liberal Inter-Regionalism to Realist Bilateralism", cit.

[12] World Bank, *Brazil - GDP per capita (current US$)*, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=BR.

[13] IMF, *World Economic Outlook*, April 2018, cit., p. 245.

[14] World Bank, *Country Poverty Brief: Brazil*, October 2017, http://povertydata.worldbank.org/poverty/country/BRA.

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between EU member states; negotiations were also hampered by drawn-out coalition talks in Germany that were finally resolved in March 2018, six months after general elections there. During this time, important decisions on further deepening economic convergence have been delayed. According to the IMF, GDP growth in the Eurozone reached 2.3 per cent in 2017, although estimates for 2018 indicate a slight increase to 2.4 per cent.[15]

With an estimated growth rate of 3.1 per cent, 2017 was Spain's third year of GDP increase beyond 3 per cent. However, this horizon is overshadowed by the economic effects of the ongoing Catalan crisis, which reduces economic growth prospects for 2018 to 2.8 per cent. Germany has also posted solid growth rates (1.9 per cent in 2016 and 2.5 per cent in 2017), while France (1.2 and 1.8 per cent, respectively) and Italy (0.9 and 1.5 per cent) have lagged behind.[16] Although Spain has become the economic champion of the Eurozone, the country's public debt reached over 98.3 per cent of GDP and was higher than the EU average (86.9 per cent in 2017)[17] – similar to the situation in Brazil at the end of the 1990s, during the financial crisis of the Real. Almost ten years after the global financial crisis, in 2017, southern EU members were still struggling with public deficits beyond the 3 per cent limit, high public-debt ratios and unemployment rates that doubled the EU averages of 9.1 per cent overall and 18.8 per cent for youth unemployment: 21.5 and 43.6 per cent, respectively, in Greece; 17.2 and 38.6 per cent in Spain; 11 per cent and 34.7 per cent in Italy. These Eurostat figures contrast with 9.4 per cent unemployment in France and 3.8 per cent in Germany.[18]

Ongoing Brexit negotiations further undermine the prospects for economic growth and an open economic EU space, as the single market will lose a large economy in the form of the UK. The German government has been unable to turn Germany's strong macroeconomic performance into an engine for EU-wide growth. Although French President Emmanuel Macron has taken on a leading role by designing a new "road map" for the EU – including a financial minister, a budget and a parliament for the 19 members of the Eurozone – he is unlikely to get far without the backing of a strong German government. The results of general elections on 4 March 2018 in Italy, the third largest economy in the Eurozone, with the eurosceptic Five Star Movement being the largest party and the fragmented political scene create additional political uncertainties in a scenario of incipient economic and financial recovery and weak political leadership of the EU.

[15] IMF, *World Economic Outlook*, April 2018, cit., p. 14.

[16] Ibid., p. 241.

[17] Eurostat, *General government gross debt*, http://ec.europa.eu/eurostat/en/web/products-datasets/-/SDG_17_40.

[18] Eurostat, *Unemployment rate - annual data*, http://ec.europa.eu/eurostat/web/products-datasets/-/tipsun20.

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3. The EU's trade agenda

The EU is a global trade superpower accounting for 16 per cent of world trade.[19] In 2016, its exports ranked second after China's.[20] Unlike the US, which has recently cooled on free-trade agreements, the EU continues its strong engagement with other countries through bilateral, interregional and global trade negotiations. In its relations with third parties, the Union distinguishes between three types of agreements, from deep to light "integration": (1) customs unions (with Turkey and a few micro-states in Europe); (2) association, or economic-partnership, agreements that include a comprehensive free-trade-plus (investment, cooperation and dialogue) agenda; and (3) partnership and cooperation agreements that offer a general framework for economic relations without establishing a free-trade area.

Immediately after the sixth WTO Ministerial Conference, held in 2005 in Hong Kong, the so called "Lamy doctrine" was considered by many to be the most feasible policy option for the EU. This doctrine, created in 1999 by the then EU Trade Commissioner Pascal Lamy, referred to the "Doha conditionality", meaning that the EU should not negotiate bilateral or interregional agreements while global trade negotiations were under way. At that time, the EU's clear preference was to conclude the WTO Doha Round. In case the latter failed, regionalism was considered as the second best option and bilateralism a last resort. Accordingly, when the Doha Round stagnated in 2008, the EU veered towards a new EU strategy of promoting bilateral and regional agreements, which duly began to proliferate.

Until 2017, the EU had 31 agreements in force, including the Association Agreements with Moldova and Georgia and an FTA with South Korea. A further 12 free-trade-plus agreements are currently under negotiation.[21] In Latin America, the EU–LAC Strategic Partnership launched at the Rio Summit in 1999 included the prospect of gradually establishing FTAs with all countries of the region. The Union's first free-trade-plus agreements – with Mexico (2000), currently in the process of upgrading, and Chile (2005) – are already in force. The FTAs with CARICOM (a community of 15 Caribbean countries), Central America, Colombia, Ecuador and Peru, as well as a further 11 with individual partners or blocs outside of Latin America, are provisionally applied – the most recent one being the Comprehensive Economic and Trade Agreement, or CETA, with Canada.

Mercosur, the EU's key economic partner in Latin America, poses the main obstacle to completing the projected "map" of agreements with the region. The withdrawal of the traditionally pro-free-trade UK might create additional problems to free-

[19] European Commission website: *EU position in world trade*, http://ec.europa.eu/trade/policy/eu-position-in-world-trade.

[20] Eurostat, *EU and main world traders*, http://ec.europa.eu/eurostat/statistics-explained/index.php/EU_and_main_world_traders.

[21] European Commission website: *Negotiations and agreements*, http://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements.

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trade negotiations and strengthen Europe's tendency to protect agriculture and other sectors. Although EU member states figure at the top of the KOF globalization index – the Netherlands and Ireland reached first positions in 2017[22] – the EU's agriculture trade policy is highly protectionist. Subsidies provided under the Common Agriculture Policy (CAP), which still accounts for approximately 38 per cent of the EU budget, are a major obstacle to advancing trade negotiations on goods with Brazil and Mercosur. France in particular, as the main European producer of agriculture products and a major beneficiary of CAP subsidies, opposes a full access for Mercosur's highly competitive agriculture goods.

Beyond EU–Mercosur negotiations,[23] the recently formulated common proposal with Brazil to regulate agriculture subsidies at the WTO,[24] discussed at the eleventh Ministerial Conference in Buenos Aires in December 2017, represents a major advance in bilateral relations. The proposal foresees a differential treatment that allows least developed countries to impose agriculture subsidies and reduces the use of subsidies in more advanced economies, including those in the EU. Given that agriculture subsidies were a major obstacle to concluding the WTO Doha Round in 2008, this agreement could be a step forward in the resumption of the WTO multilateral process.

If the US continues to flirt with protectionism, the EU might become the global hub and champion of trade liberalization. Since trade is the exclusive competence of the European Commission – although most agreements are mixed and include EU member states – it is highly unlikely that the Union will change its current trade agenda. In this respect, the EU will remain a global trader and continue negotiations with Mercosur – including a Brazil that, under the Temer government, is more open to free-trade negotiations than it was under its predecessors. Thus, the months remaining until presidential elections in Brazil offer a window of opportunity to sign an EU–Mercosur trade deal. This was expected to be finalized in December 2017 but eventually failed due, among other reasons, to the reluctance of Mercosur countries to agree to the agriculture-quota system proposed by the European Commission for sensitive products like beef.

[22] KOF Swiss Economic Institute, *2017 KOF Index of Globalization*, https://www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html.

[23] European Commission website: *Latest round reports and EU proposals for the trade agreement with Mercosur*, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1769.

[24] Proposal on Domestic Support, Public Stockholding for Food Security Purposes and Cotton by Brazil, the EU, Colombia, Peru and Uruguay, submitted in July 2017, http://trade.ec.europa.eu/doclib/html/155777.htm.

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4. Challenges for the Brazil–EU economic agenda

The EU (2nd) and Brazil (9th) are among the ten biggest world economies. From an EU perspective, Brazil's importance extends beyond bilateral and interregional (Mercosur) trade and investment relations. As Latin America's biggest country; largest economy; and the "voice" of South America, which concentrates the region's foreign-investment flows and integration efforts (Mercosur and Unasur), Brazil is a regional power with a global BRICS projection and a strong commitment to multilateralism.[25] This coincides with EU interests in regional and global governance. Thus, the shared economic agenda is divided into bilateral relations, interregional negotiations (EU–Mercosur), and, as a future challenge, global economic and financial governance.

At the bilateral level, investment is, by far, the largest incentive for a reactivation of economic relations and a free-trade-plus agreement. Brazil is the largest country of destination for European foreign direct investment (FDI) in Latin America and, more importantly, it is the largest BRICS-country beneficiary of EU investment stocks. In 2015, Brazil monopolized nearly half (48.5 per cent) of FDIs in Latin America.

The EU's trade exchanges with Brazil have experienced a decline compared with those with other emerging countries like China (1st), Russia (4th), South Korea (8th) or India (9th) (see Figure 5 in Annexes).[26] Trade relations remain highly asymmetrical in terms of products and interdependences. Regarding trade interdependences, the EU has lost weight as a trading partner with Brazil but is still the country's main trade partner, accounting for 18.3 per cent of total flows in 2017 – albeit with China much closer in the rankings than in former years (see Figure 6 in Annexes). For the EU, Brazil has become even less important in its external trade, with a level of 1.7 per cent in the same year (see Figure 5 in Annexes). Also, the structure of exchanges reflects asymmetrical independence: in 2017, 67.5 per cent of Brazil's exports to the EU were primary products – mainly agricultural goods, which accounted for 38 per cent of total exchanges in 2017 compared with 82 per cent of manufactures in the European case (see Figure 4 in Annexes). In 2017, high-value-added EU sales of industrial goods to Mercosur stood at 94.7 per cent of imports, contrasted with Mercosur exports of primary products, which accounted for 72.1 per cent of total sales to the EU.[27]

[25] Harold Trinkunas, "What Brazil Contributes to the International Liberal Order", in *Order from Chaos*, 18 February 2016, http://brook.gs/2bd83GC.

[26] European Commission Directorate-General for Trade, *Top Trading Partners 2017*, cit.

[27] European Commission Directorate-General for Trade, *European Union, Trade in Goods with Brazil*, cit.; and *European Union, Trade in Goods with MERCOSUR*, updated 16 April 2018, http://trade.ec.europa.eu/doclib/html/113488.htm.

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Brazil remains a protected economy, with an average external tariff of 13.5 per cent that is particularly high for computers and automobiles, sectors in which the EU is competitive and expects the highest benefits of an FTA with Mercosur. Nonetheless, the relevance of the Chinese market for Brazilian and Mercosur agricultural goods reduces tensions with the EU, which remains highly protectionist on agriculture by applying non-tariff barriers such as quotas or subsidies to products such as wine or meat (where, conversely, Brazil and Mercosur countries expect the highest benefits from any agreement with the EU).

Brazil–EU cooperation also takes place between political parties and parliaments, NGOs and civil-society organizations, or within the EU–Mercosur Business Forum. During the nearly two decades of the Strategic Partnership, more than three dozen dialogue forums involving governments and non-government actors on, among other issues, energy, science and technology, investment, climate change, social issues and human rights have been established. Nonetheless, they lack the political weight to reach concrete results. A new bilateral EU–Brazil summit would be a first step towards reactivating and reforming the bilateral Strategic Partnership. Beyond the rhetoric of declarations and work plans, the Strategic Partnership should concentrate on addressing structural asymmetries in bilateral and bi-regional relations – and on forging agreements on relevant issues of regional and global financial and economic governance, including regular consultations in order to coordinate positions at the G-20 summits.

EU–Mercosur negotiations take place at the interregional level. EU–Mercosur relations go back to 1995, when both sides signed the Interregional Cooperation Framework Agreement (AMIC). It was the first agreement between two distant customs unions of different economic size. But the pace of the application of the AMIC, in force since 1999, has been slow and complicated. This is particularly noticeable in trade terms from the excessive concentration on a few agricultural goods, but also regarding the maintenance of important trade barriers or the disproportion between exports and demand. Even though neither party actually concluded the trade chapter of the agreement, substantial advances have already been made on its political-dialogue and cooperation chapters.

Thirty-two negotiation rounds – the latest one in the Paraguayan capital, Asunción, in February-March 2018 – have shown how difficult it is to define an inter-bloc association agreement between the EU and Mercosur. Market access – particularly in the fields of services and agriculture – remain the two most sensitive and, at the same time, most beneficial sectors, of a potential agreement. A zero-sum logic, according to which the highest benefits for one partner (services and automobiles in case of the EU, and agriculture in case of Mercosur) are major losses for the other, unfortunately still applies. The last exchange of proposals on market access (for goods, services, investment and government procurement) improved on those presented in 2004: among other things, Mercosur offered to liberalize 87 per cent of products instead of the formerly proposed 71 per cent, and reduced the transition

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period for total trade liberalization from 17 to 15 years.[28] However, both parties felt themselves unable to sign an agreement.

The thorniest point of negotiations still focuses on the agricultural issue and sensitive products such as beef, sugar, ethanol and poultry. As the second and third largest agriculture producers, the EU and Mercosur are international competitors. The EU is the main international market for Mercosur agriculture exports, which, thanks to their high quality, would be very competitive against European producers. To protect its own farmers, the EU has offered a quota and fixed-price system for sensitive food products, and full liberalization in ten years for 89 per cent of products, 4 per cent less than what it offered in 2004.[29] One highly sensitive product is meat; the EU offer proposed in October 2017, an annual quota of 70,000 tonnes of meat, was rejected by Mercosur. At the next negotiation round, in March 2018 in Paraguay, the EU increased the quota for meat by an additional 29-30,000 tonnes, but this was still considered insufficient.[30]

There is little doubt that the complete liberalization of the agricultural market – opposed by French and other European farmers – would have economic costs for the EU – for example, in changes to CAP regulations, food prices and subsidies. However, it should be noted that sensitive products represent only 10 per cent of current Mercosur exports to the EU. The fundamental problem concerns not the economic but the political consequences: massive protests by powerful agricultural lobbies, especially in countries such as France and Poland; or negotiation positions of other countries that participate in the WTO Doha Round, which could ask for the same treatment or for compensation in return for any EU concessions to Mercosur.

In exchange for improved market access, the EU demands improvements in the protection of property rights, rules of origin and geographical indications, and claims equal access to services and government procurement. For the EU, only free-market access for industrial products, services and public procurement could justify a major opening of an agricultural sector highly protected by subsidies as well as by health and ecological standards and norms.

With regard to the liberalization of industrial goods, Mercosur still poses important barriers. Although the deficit in the trade balance has declined due to the contraction of Mercosur imports from the EU, the relationship is still very asymmetrical – partly due to the scant participation of Brazil and its partners in global value chains. Trade liberalization clashes with the Brazilian Government's protection of local production. A particularly difficult area is reciprocity in the

[28] Institute for the Integration of Latin America and the Caribbean (INTAL), "Los futuros del MERCOSUR: nuevos rumbos de la integración regional", in *IDB Technical Notes*, No. 1263 (March 2017), p. 33, http://dx.doi.org/10.18235/0000637.

[29] Ibid., p. 34-35.

[30] Hans von der Burchard and Ryan Heath, "EU Races against the Clock to Seal Beef-for-Cars Trade Deal", in *Politico*, 26 January 2018, https://www.politico.eu/article/mercosur-eu-deal-faces-race-against-the-clock.

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textile and footwear sectors, as well as a complete liberalization of both sectors. The liberalization of automotive and high-tech industries is also sensitive, given that these sectors are protected by high tariffs and import quotas.

In the framework of ongoing EU–Mercosur negotiations, it will be important to further diversify the respective trade flows, reform the strict EU position in relation to industrial property rights and revise the rules of origin and geographical indications of agricultural products, as well as find a reasonable solution to non-tariff barriers that limit or even cancel out the advantages of preferential market access.

Mercosur's service sector is also characterized by a lack of openness and/or poor transparency, uncertainties in its legal framework for foreign investment, and the existence of large service sectors in the hands of the state. However, these obstacles are less relevant than the agricultural or industrial chapters. Mercosur's service sector offers important business opportunities for European companies, mainly in Argentina and Brazil. Even today, more than two thirds of European FDI in Mercosur has taken place in the services sector (see Annexes). Negotiations on these chapters are closely linked to those being held in the Doha round aimed at creating a new regulatory framework geared towards greater convergence.

Another source of problems for the EU in achieving a free-trade-plus agreement with Mercosur is shortcomings in the integration process, such as the lack of complete customs harmonization; the insufficient development of rules of origin; and, in general, slow progress in the treatment of asymmetries concerning member states' degree of integration with and commitment to Mercosur. Asymmetries in terms of power and interdependence are evident: Paraguay concentrates 40 per cent of its total trade on Mercosur, Uruguay 30 per cent and Argentina more than 25 per cent – but Brazil, as a global and highly diversified trader, less than 10 per cent.[31] In total, intra-bloc trade in Mercosur had a modest share of 13.7 per cent of total trade in 2016[32] – four percentage points less than in 2011, when trade between member states declined by 7 per cent. Brazil's leadership position is also obvious by the size of its internal market (207 million inhabitants) and its economic weight, which accounted for 74.6 per cent of Mercosur's total GDP in 2017. In this sense, Brazil is not only a bilateral partner of the EU but also the key negotiator for the bloc.[33]

[31] INTAL, "Los futuros del MERCOSUR: nuevos rumbos de la integración regional", cit., p. 23. According to Eurostat, in 2017 Brazil divided its trade relations between China (20 per cent), the EU (18 per cent), the United States (14 per cent) and Latin America (13 per cent) and the rest of the world (Japan, South Korea, India, Russia).

[32] Alejandro Ramos Martínez et al., "Informe MERCOSUR No. 22: renovando la integración", in *IDB Technical Notes*, No. 1357 (December 2017), p. 36, http://dx.doi.org/10.18235/0001005.

[33] Ibid.

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5. A new opportunity for Doha?

Both Brazil and the EU are strong defenders of the WTO development trade round, and could push together for a swift conclusion of the most sensitive issues (agriculture, industrial products and services) on the global trade agenda. The conclusion of the delayed Doha Development Round requires new initiatives and a revitalization of the big negotiation agenda of the past. From 2013 onwards, the WTO "family" has grown from 159 to 164 members, expanding the coverage of WTO rules to over 98 per cent of global trade.[34] This is a success but also a challenge, because the larger negotiation format poses serious obstacles to achieving an agreement acceptable to everybody.

The eleventh WTO Ministerial Conference in Buenos Aires on 10–13 December 2017 exemplified the difficulties of making progress in large multilateral negotiations against the protectionist positions of the Trump administration and other obstacles. However, WTO Director General Azevêdo announced reasonable advances in agriculture, development, rules, e-commerce, services and possibly some other areas as well.[35] A first important step towards closer cooperation has been the EU–Brazil common proposal on agriculture subsidies, traditionally a major divide between Mercosur and the EU.

In his last report, the secretary of the Negotiating Group on Market Access of the WTO observed that "some Members (developed and developing ones) do not seem to see space for engaging in multilateral tariff liberalization anymore, at least for the time being".[36] This statement encompasses several different positions. Some members do not want to engage in negotiations on tariff reduction because of domestic economic challenges. A second group of countries is willing to engage in multilateral tariff negotiations if it obtains in return effective market access or comparable outcomes in other negotiating sectors. A third group is sceptical of a broad, multilateral result and prefers pluri-lateral or sector initiatives to go forward. A fourth group considers that tariff cuts are not feasible nowadays, and that the focus should be on increasing the level of tariff bindings and reducing "policy space" for development as a protectionist barrier. This fragmented overview gives an idea of the difficulties of moving forwards on a global multilateral basis, making regional market-access agreements more feasible.

[34] WTO Director-General, *WTO Accessions 2017 Annual Report*, 29 November 2017, p. 3, https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/ACC/31.pdf.

[35] WTO website: *Eleventh WTO Ministerial Conference*, https://www.wto.org/english/thewto_e/minist_e/mc11_e/mc11_e.htm.

[36] WTO Negotiating Group on Market Access, *Report by the Chairman, Ambassador Didier Chambovey, to the Trade Negotiations Committee*, 27 November 2017, p. 1, https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/TN/MA/31.pdf.

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On the other hand, there is an increasing interest in addressing non-tariff barriers (NTBs). Such proposals aim at covering, for example, regulatory measures falling within the scope of the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) and the Agreement on Technical Barriers to Trade (TBT Agreement). Rules on licensing and qualification requirements and procedures, as well as technical standards, would yield greater transparency and predictability, and add important value to existing market-access commitments. Even the United States presented a proposal to enhance transparency and strengthen notification requirements at the eleventh Ministerial Conference in Buenos Aires.

In the WTO Committee on Trade and Development, the least developed countries (LDCs) proposed maintaining regulatory flexibilities to exempt them from some common rules in order to promote industrialization and diversification, and to facilitate structural transformations of their economies. But some members argued that these flexibilities would send the wrong signal – i.e. that multilateral trade rules do not foster development. Therefore, they propose that deviations from rules should only be considered in exceptional circumstances and only for those who really need them.[37]

The current state of play in the services negotiations covers four areas: services-trade facilitation, services related to e-commerce, market access and domestic regulation. While these four topics have been discussed over the past year, only domestic regulation has been raised. Moreover, India and the EU have communicated their intentions to re-engage on, respectively, services-trade facilitation and online transactions after the Ministerial Conference.[38]

In this context of fragmentation and stagnation in global trade negotiations, an adjustment in the positions of Mercosur – closer to the demands of the Global South and the EU, further from US protectionism – could help to unblock the WTO Doha Round on key issues. This would assist in overcoming the current entrenchment dynamics and build on flexible and sensitive solutions to development asymmetries based on transparency and fair treatment.

[37] Kanaga Raja, "DG proposes 'minister facilitators', chairs report on state of play", in *TWN Info Service on WTO and Trade Issues*, 4 December 2017, https://www.twn.my/title2/wto.info/2017/ti171202.htm.

[38] WTO Council for Trade in Services, *Report by the Chairman, H.E. Ambassador Hector Marcelo Cima, to the Trade Negotiations Committee*, 27 November 2017, p. 1, https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/TN/S/41.pdf.

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6. Global economic development and financial governance

Brazil and the EU are still incipient partners on global economic and financial governance. The new international context is characterized by an increasingly constructive Chinese role in both these areas (as, for example, at the 2017 Davos meeting) and President Trump's position of "America first". Due to the increasingly isolated US position, Brazil and the EU are forced to adopt common initiatives and assume a stronger and more proactive role in order to reform the international financial system – including the G-20, the IMF and the World Bank – and to open up the OECD for new members from the South (including Brazil).

In a joint letter prior to the G-20 Summit held in Hamburg in 2017, the President of the European Council, Donald Tusk, and the President of the European Commission, Jean-Claude Juncker, set out some of the main questions to be addressed.[39] Among other things, they posed the question of what role the G-20 should play in achieving an effective global economy. It seemed that the G-20 had lost momentum, and had become a space for debate without any tangible results. Revitalizing this forum with views brought to the next G-20 Summits would require further clarification of the main issues to be addressed.

Rather than becoming a space for debate on countless development issues, the G-20 should focus on economic and financial governance based on transparent rules, more representative institutions and inclusive decision-making. The debate on the depletion of the Bretton Woods system, and the emergence of a more fragmented financial system and its implications for international economic stability, is of paramount importance for both Brazil and the EU. Recent experiences of both parties warrant an in-depth debate on the causes and consequences of financial crises and how to prevent them. The strengthening of the Eurozone or the creation of new financial institutions such as the BRICS New Development Bank should be openly debated.

The international fight against corruption and tax evasion should be another priority to include in the global financial-governance agenda. The lack of control over illegal financial flows undermines national and international institutions, produces political instability and endangers the sustainability of social policies. The signing, on 7 June 2017, of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, in a ceremony attended by over seventy government ministers, was a major achievement that should be put into practice alongside the fight against tax havens.[40]

[39] European Commission, *The EU at the G20 summit in Hamburg: Joint letter of Presidents Juncker and Tusk*, 4 July 2017, http://europa.eu/rapid/press-release_STATEMENT-17-1909_en.htm.

[40] OECD website: *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS*, http://www.oecd.org/tax/treaties/multilateral-convention-to-implement-tax-treaty-related-measures-to-prevent-beps.htm.

The consequences of the "fourth industrial revolution"[41] by rapid technological change and the digitalization of production should also be addressed. Digitalization can enhance productivity and sustainable development, but it also represents a challenging transformation of the labour market and employment. All countries need to prepare themselves to adapt education systems in order to develop digital skills. Digitalization can also be an opportunity for a more transparent public administration and for controlling private flows to prevent tax fraud and money laundering.

The next G-20 meeting in Buenos Aires in 2018, the first to be held in South America, is an opportunity to put forward proposals for joint collaboration with Brazil as part of the BRICS bloc; as a member of Mercosur; and, at the same time, as a strategic partner of the EU. The presidential election campaign in Brazil during the second half of 2018 does not seem the ideal moment for such a course of action, but the economic recovery and new impetus towards a stronger political convergence with Argentina under President Mauricio Macri open a window of opportunity to revitalize EU–Brazil relations.

At a broader level, the EU and Brazil should also be partners in the implementation of the United Nations' Sustainable Development Goals (SDGs), the so-called "Agenda 2030". In the past, Brazil has promoted South–South cooperation with its neighbours and with Africa. The EU is also committed to implementing the SDGs, especially with regard to the LDCs. Although Brazil is not eligible for EU development cooperation due to its level of per capita income, it is a key partner for triangular cooperation – in Latin America and Africa. Brazil can also be considered a "laboratory" for the fight against inequality and climate change – two central axes of the SDGs, where its interests and priorities coincide with those of the EU.

7. Exploring the full potential: what can the EU and Brazil do together?

The end of a negative cycle and the beginning of a more promising and prosperous period of growth opens a window of opportunity to reactivate the underperforming economic cooperation between Brazil and the European Union. The obstacles posed on global governance by President Trump's nationalist position could offer a chance to strengthen the voice of other, non-hegemonic actors like the EU and Brazil. An important test case for a possible consensus between Brussels and Brasília will be the G-20 Summit in Buenos Aires.

On the interregional level, despite remaining obstacles on the agriculture front, EU–Mercosur negotiations look more promising than they did several years ago, and the EU and Brazil have larger interests and more incentives to successfully

[41] Klaus Schwab, *The Fourth Industrial Revolution*, New York, Crown Business, 2016.

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conclude the process by signing a bilateral and/or comprehensive interregional deal. This step would transform EU–Brazil relations into a real strategic partnership. Accordingly, both parties should concentrate their economic agenda on the following topics:

1. Achieving the EU–Mercosur Association Agreement is the main priority. Apart from mutual economic benefits – higher trade and investment flows, and closer business relations – when evaluating the negotiations, both sides should also frame the positive effects of better cooperation in a broader context of EU–LAC relations, in which Brazil and Mexico would, for the first time, share a similar level of relations with the EU.

2. Negotiations on market access look more feasible at the bilateral (EU–Brazil) or interregional (EU–Mercosur) level than in a global framework, even though progress on non-tariff barriers seems to be more likely at the multilateral level of the WTO Doha Round.

3. FDI appears as the main driving force behind the Mercosur–EU relationship. Nonetheless, to enhance European FDI flows in the future it will be necessary to improve the investment regulation framework with a more comprehensive set of agreements at a bilateral or interregional level.

4. The reactivation of the bilateral Brazil–EU Strategic Partnership for economic growth requires the involvement of civil society and the private sector. The greater engagement of non-state actors in interregional relations contributes to reducing vulnerability to economic cycles.

5. Brazil and the EU should explore formulas to accelerate and reactivate economic and financial global governance, with the purpose of preventing future crises by regulating the international financial market – including proposals such as the Financial Transaction Tax (or so-called "Tobin Tax"), already introduced by some EU member states (among others, Germany).

6. The adoption of common positions at global economic and financial forums, and a stronger and more proactive role in reforming the international financial system, including the IMF and the World Bank. At the G-20 Summit in Buenos Aires, the EU and Brazil should initiate negotiations and forge alliances in order to formulate common proposals to reform the financial system. Both should also exchange experiences on the management of the financial crisis, and future prevention and solution.

7. The EU should support Brazil's membership at the OECD and, in the foreseeable future, at the Development Assistance Committee (DAC), following the experiences of other Latin American and emerging countries such as Chile, Mexico or South Korea. At the same time, the EU and Brazil should enhance triangular cooperation in Latin America, the Caribbean and Africa for the implementation of Agenda 2030.

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In the broader economic and financial context, another challenge for Brazil and the EU is the definition of a clearer economic and financial road map of relations beyond general action plans that read like a shopping list and prove impossible to meet. Instead of more than 30 sector dialogues, agreement on a few strategic sectors like energy, the reform of the financial system and global trade (Doha and EU–Mercosur) – including setting concrete results and timetables – would better serve to explore the underperformance of Brazil–EU relations than overlapping bilateral, interregional and international agendas that are more wishful thinking than concrete formulas of result-oriented cooperation. As global economies, strong pillars of the multilateral system and defenders of the global liberal order with shared regional preferences (for democracy, human rights, development and integration), Brazil and the EU are ideal partners to establish a balanced free-trade agreement and to push for stronger global economic and financial governance.

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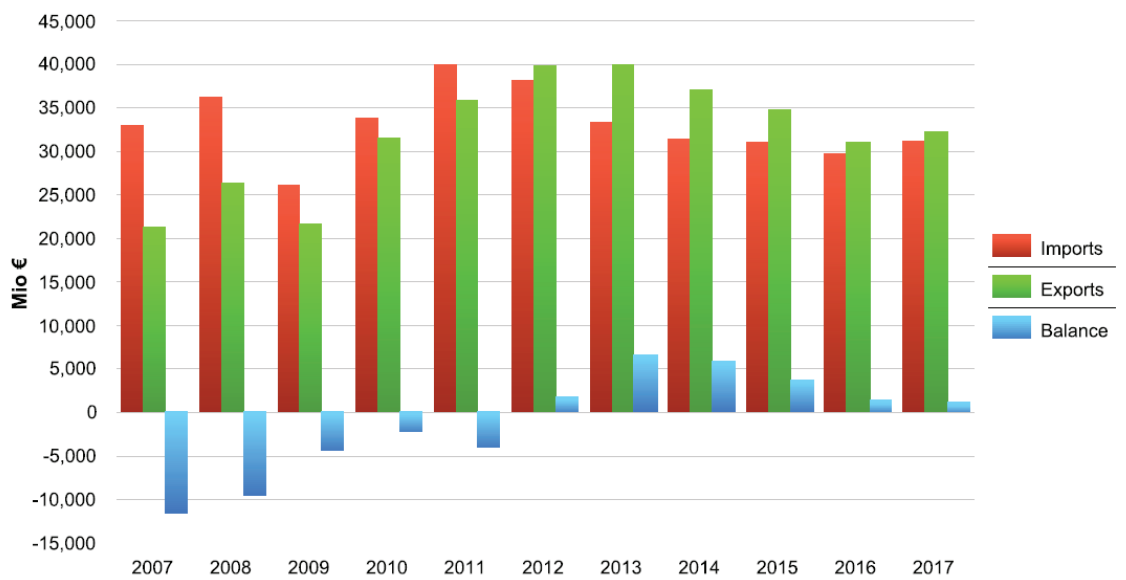
Annexes

Figure 1 | EU trade with Brazil: key figures

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Mio euros	2017	31,155	32,225	63,380	1,071
Rank as EU partner		2017	12	17	11	
Share in EU trade	%	2017	1.7	1.7	1.7	
Annual growth rate	%	2016 - 2017	5.0	4.1		
Annual average growth rate	%	2013 - 2017	-1.7	-5.2		

Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, updated 16 April 2018, p. 2, http://trade.ec.europa.eu/doclib/html/113359.htm.

Figure 2 | EU trade with Brazil: flows and balances, 2007–17



Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, cit., p. 3.

Figure 3 | EU trade with Brazil: flows and balances, 2007–17

Period	Imports			Exports			Balance	Total trade
	Value Mio €	% Growth	% Extra-EU	Value Mio €	% Growth	% Extra-EU	Value Mio €	Value Mio €
2007	32,913		2.3	21,264		1.7	-11,649	54,177
2008	36,029	9.5	2.3	26,307	23.7	2.0	-9,722	62,336
2009	26,064	-27.7	2.1	21,583	-18.0	2.0	-4,480	47,647
2010	33,794	29.7	2.2	31,479	45.9	2.3	-2,315	65,272
2011	39,927	18.2	2.3	35,774	13.7	2.3	-4,154	75,701
2012	38,011	-4.8	2.1	39,684	10.9	2.4	1,674	77,695
2013	33,308	-12.4	2.0	39,884	0.5	2.3	6,576	73,191
2014	31,244	-6.2	1.8	36,990	-7.3	2.2	5,746	68,235
2015	30,967	-0.9	1.8	34,600	-6.5	1.9	3,633	65,567
2016	29,662	-4.2	1.7	30,959	-10.5	1.8	1,297	60,621
2017	31,155	5.0	1.7	32,225	4.1	1.7	1,071	63,380

% Growth: relative variation between current and previous period
% Extra-EU: imports/exports as % of all EU partners i.e. excluding trade between EU Member States

Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, cit., p. 3.

Figure 4 | EU trade with Brazil by type of products, 2017

Imports 2017 / **Exports 2017**

AMA/NAMA product Groups

Product	Value Mio €	% Total	Product	Value Mio €	% Total
Agricultural products (WTO AoA)	11,839	38.0	Agricultural products (WTO AoA)	1,692	5.2
Fishery products	46	0.1	Fishery products	87	0.3
Industrial products	19,270	61.9	Industrial products	30,447	94.5
Total	31,155	100.0	Total	32,225	100.0

SITC product Groups

Product	Value Mio €	% Total	Product	Value Mio €	% Total
Primary products	21,029	67.5	Primary products	4,541	14.1
Manufactures	8,336	26.8	Manufactures	26,437	82.0
Other products	1,381	4.4	Other products	575	1.8
Other	409	1.3	Other	672	2.1

Top 5 - HS sections

	Product	Value Mio €	% Total		Product	Value Mio €	% Total
V	Mineral products	6,793	21.8	XVI	Machinery and appliances	8,559	26.6
II	Vegetable products	5,558	17.8	VI	Products of the chemical or allied industries	7,616	23.6
IV	Foodstuffs, beverages, tobacco	5,072	16.3	XVII	Transport equipment	4,371	13.6
XV	Base metals and articles thereof	2,360	7.6	V	Mineral products	2,278	7.1
X	Pulp of wood, paper and paperboard	2,197	7.1	VII	Plastics, rubber and articles thereof	1,889	5.9

Top 5 - SITC sections

	Product	Value Mio €	% Total		Product	Value Mio €	% Total
2	Crude materials, inedible, except fuels	9,196	29.5	7	Machinery and transport equipment	12,955	40.2
0	Food and live animals	8,991	28.9	5	Chemicals and related prod, n.e.s.	8,440	26.2
6	Manufactured goods classified chiefly by material	3,601	11.6	6	Manufactured goods classified chiefly by material	3,190	9.9
7	Machinery and transport equipment	2,811	9.0	8	Miscellaneous manufactured articles	2,220	6.9
3	Mineral fuels, lubricants and related materials	1,936	6.2	3	Mineral fuels, lubricants and related materials	2,215	6.9

Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, cit., p. 2.

Figure 5 | EU top trading partners, 2017

Imports				Exports				Total trade			
	Partner	Value Mio €	% Extra-EU		Partner	Value Mio €	% Extra-EU		Partner	Value Mio €	% Extra-EU
	World	1,858,257	100.0		World	1,879,431	100.0		World	3,737,688	100.0
1	China	374,823	20.2	1	USA	375,845	20.0	1	USA	632,021	16.9
2	USA	256,176	13.8	2	China	198,200	10.5	2	China	573,023	15.3
3	Russia	145,094	7.8	3	Switzerland	150,813	8.0	3	Switzerland	261,220	7.0
4	Switzerland	110,407	5.9	4	Russia	86,186	4.6	4	Russia	231,280	6.2
5	Norway	77,433	4.2	5	Turkey	84,490	4.5	5	Turkey	154,251	4.1
6	Turkey	69,760	3.8	6	Japan	60,493	3.2	6	Japan	129,373	3.5
7	Japan	68,880	3.7	7	Norway	50,702	2.7	7	Norway	128,135	3.4
8	South Korea	50,017	2.7	8	South Korea	49,805	2.7	8	South Korea	99,822	2.7
9	India	44,184	2.4	9	United Arab Emi...	42,616	2.3	9	India	85,907	2.3
10	Vietnam	37,018	2.0	10	India	41,723	2.2	10	Canada	69,182	1.9
12	Brazil	31,155	1.7	17	Brazil	32,225	1.7	11	Brazil	63,380	1.7

Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, cit., p. 9.

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Figure 6 | Brazil top trading partners, 2017

	Imports				Exports				Total trade		
	Partner	Value Mio €	% World		Partner	Value Mio €	% World		Partner	Value Mio €	% World
	World	141,437	100.0		World	192,770	100.0		World	334,207	100.0
1	EU 28	30,097	21.3	1	China	42,042	21.8	1	China	67,680	20.3
2	China	25,637	18.1	2	EU 28	30,917	16.0	2	EU 28	61,014	18.3
3	USA	23,555	16.7	3	USA	23,996	12.4	3	USA	47,551	14.2
4	Argentina	8,853	6.3	4	Argentina	15,601	8.1	4	Argentina	24,453	7.3
5	South Korea	4,917	3.5	5	Japan	4,662	2.4	5	Japan	8,192	2.5
6	Mexico	3,977	2.8	6	Chile	4,454	2.3	6	Mexico	7,973	2.4
7	Japan	3,530	2.5	7	India	4,123	2.1	7	Chile	7,688	2.3
8	Chile	3,234	2.3	8	Mexico	3,996	2.1	8	South Korea	7,641	2.3
9	India	2,764	2.0	9	South Korea	2,724	1.4	9	India	6,887	2.1
10	Russia	2,482	1.8	10	Russia	2,423	1.3	10	Russia	4,904	1.5
1	EU 28	30,097	21.3	2	EU 28	30,917	16.0	2	EU 28	61,014	18.3

World trade: excluding intra-region trade
Top partners: excluding region member states
% Growth: relative variation between current and previous period

Source: European Commission DG Trade, *European Union, Trade in Goods with Brazil*, cit., p. 8.

Figure 7 | International investment position of Brazil in the EU by destination (ranked by stock value in 2015)

Country	Assets			Stock		
	Value (EUR million) 2015	Average Growth 2013-2015	Share in 2015	Value (EUR million) 2015	Average Growth 2013-2015	Share in 2015
the Netherlands	61,992.0	48.6%	39.6%	58,753.0	12.9%	46.1%
Spain	9,064.0	0.4%	5.8%	6,127.0	-3.6%	4.8%
Belgium	(cd)			2,579.0	14.7%	2.0%
Portugal	2,521.0	18.7%	1.6%	2,419.0	-15.1%	1.9%
Hungary	2,393.0	-4.3%	1.5%	1,410.5	6.0%	1.1%
Italy	435.3	7.0%	0.3%	274.4	3.0%	0.2%
United Kingdom	(cd)			39.1	-12.5%	0.0%
Denmark	61.9	67.7%	0.0%	36.4	0.7%	0.0%
Slovakia[1]	12.1		0.0%	6.9	-11.5%	0.0%
Slovenia	1.7	30.4%	0.0%	1.6	-5.6%	0.0%
Other (non-confidential)[2]	1,363.9			-609.0		
Subtotal (non-confidential)	77,844.9	7.2%	85.9%	71,037.9	7.1%	55.7%
Other (confidential)[3]	78,619.1	22.9%	50.2%	56,387.3	20.6%	44.3%
European Union (28)	156,464	9.1%	100%	127,425.2	8.7%	100%

Source: Eurostat
Note: (cd) means unreleased data for confidentiality reasons.
[1] Data for Slovakia were only released as of 2014, hindering calculation of average growth.
[2] Other countries with released stock data: Germany, Bulgaria, Cyprus, Croatia, France, Greece, Ireland, Lithuania, Poland and the Czech Republic.
[3] Other countries with confidential stock data: Austria, Estonia, Finland, Latvia, Luxembourg, Malta, Romania and Sweden.

Source: Camila Flores Orth et al., *Bilateral Investments Map Brazil-European Union*, Brasília, Apex Brasil, September 2017, p. 42, http://europa.eu/!xn68HJ.

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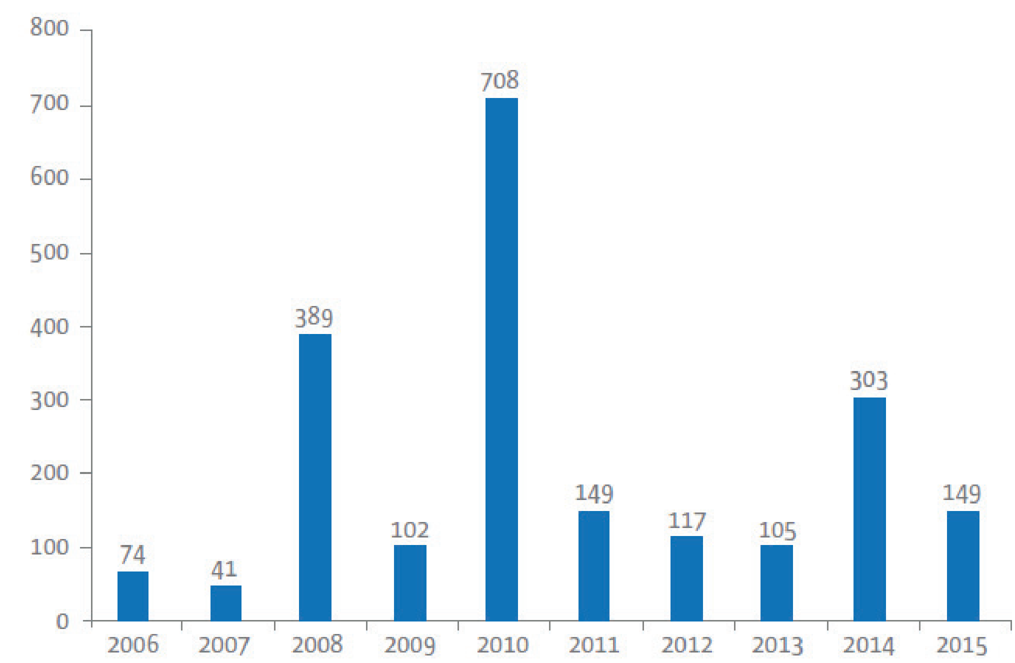
Figure 8 | International investment position of Brazil in the EU by economic sector (ranked by stock value in 2014)

Sector	Brazil FDI Stock in the EU in 2014 (EUR million)	Sector Share of Brazil FDI Stock in the EU	Brazilian share of sector FDI stock in Extra-EU countries
Financial and insurance activities	91,269.3	76.8%	2.6%
Professional, scientific and technical activities	23,969.5	20.2%	11.3%
Manufacture of basic metals and fabricated metal products, except machinery and equipment	3,621.2	3.0%	17.6%
Total	118,860.0	100.0%	1.0%

Source: Camila Flores Orth et al., *Bilateral Investments Map Brazil-European Union*, cit., p. 44.

Figure 9 | Evolution of "greenfield" investment projects announced by Brazil in the EU between 2006 and 2015 (million euros)



Source: Camila Flores Orth et al., *Bilateral Investments Map Brazil-European Union*, cit., p. 47.

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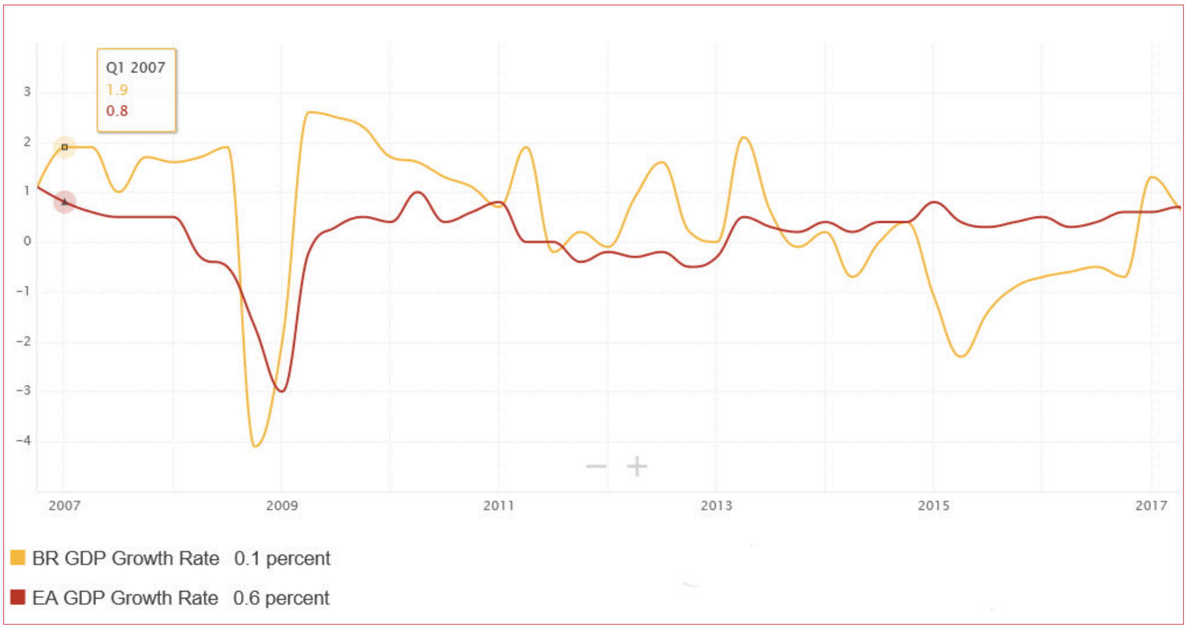
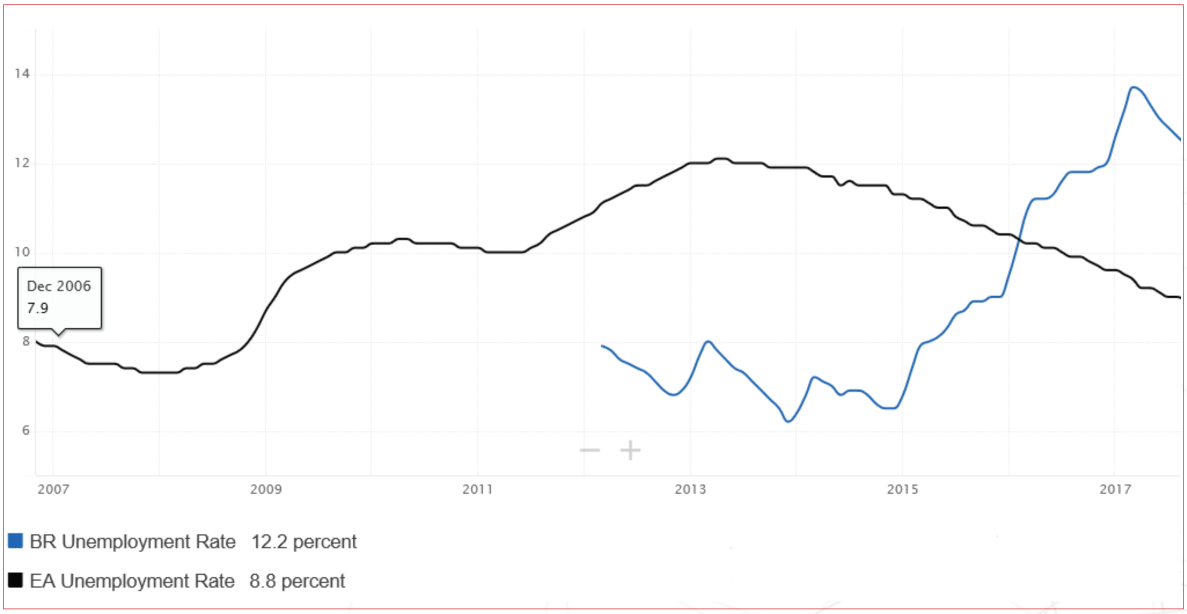
Figure 10 | EU GDP growth rate vs Brazil growth rate



Source: IEconomics, *Brazil vs Euro Area*, https://ieconomics.com/euro-area-vs-brazil.

Figure 11 | EU unemployment vs Brazil unemployment



Source: IEconomics, *Brazil vs Euro Area*, https://ieconomics.com/euro-area-vs-brazil.

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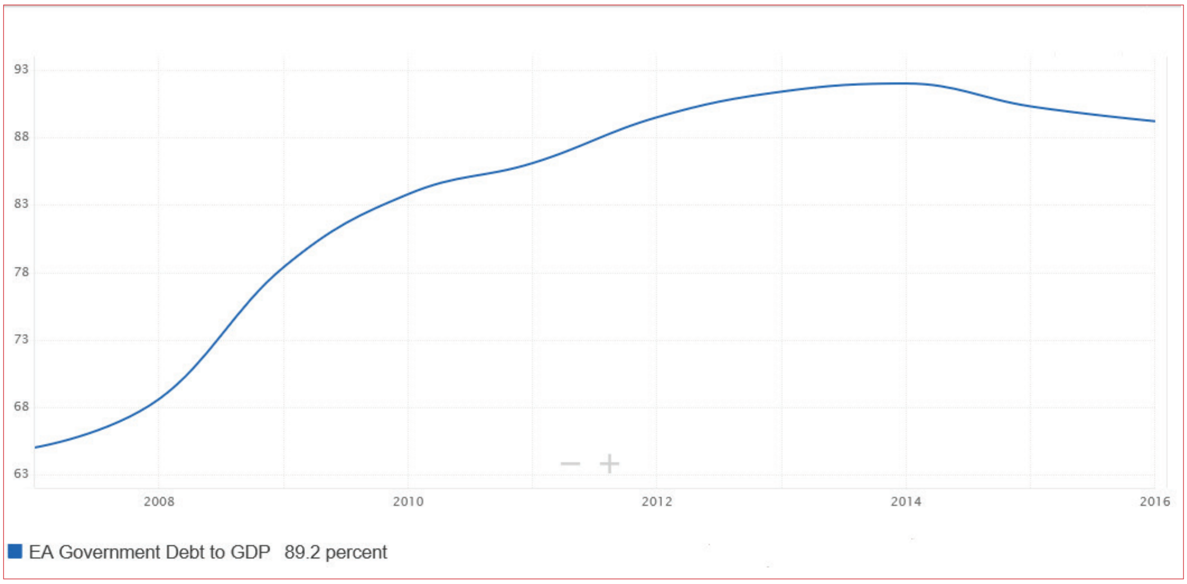
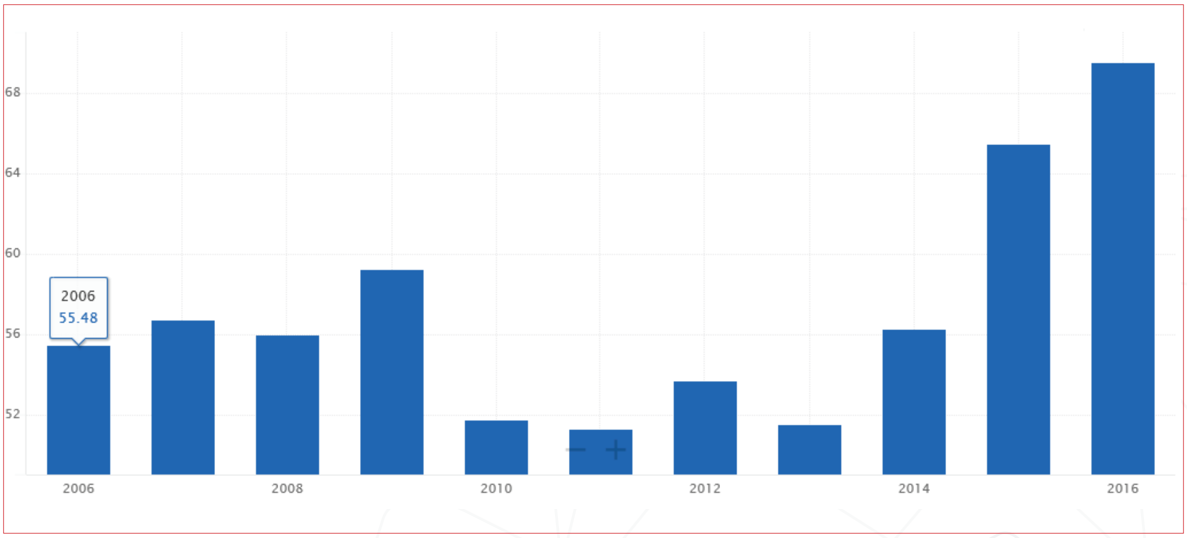
Figure 12 | EU government debt to GDP (%)



Source: IEconomics, *Euro Area - Government Debt to GDP*, https://ieconomics.com/euro-area-government-debt-to-gdp.

Figure 13 | Brazil government debt to GDP (%)



Source: IEconomics, *Brazil - Government Debt to GDP*, https://ieconomics.com/brazil-government-debt-to-gdp.

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Table 1 | Progress in EU–Mercosur Working Groups, 2016–17

Working group	Progress
Trade in goods	Agreement (2016) on a new consolidated text; controversies on infant industry, maximum tariffs, export duties and export restrictions; trade offers presented
Rules of origin	Ongoing debates on agriculture, chemical products and textiles
Customs and trade facilitation	Draft negotiation text (will be updated by the EU); WTO conform
Technical barriers	Updating of the text agreed; EU special interest in automobiles
Sanitary and phytosanitary measures	No progress
Trade defence	No progress
Subsidies	No progress (but EU–Brazil WTO proposal 2017)
Dispute settlement	Discussions on updating text; adaptation to new EU FTAs
Services and establishment	Discussions on market-access offers; revision of text
Public procurement	Revised text proposals
Intellectual property	EU revised proposal; no progress on common text
Competition	Large parts of 2012 text confirmed
State-owned enterprises	New EU text proposal

Source: Author's elaboration based on the *Report of the XXVI negotiation round on the trade part of the EU–Mercosur Association Agreement*, Brussels, 10–14 October 2016, http://trade.ec.europa.eu/doclib/html/155069.htm.

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