

EUROPEAN PARLIAMENT

# Working Documents

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19 December 1980

DOCUMENT 1-529/80

## Report

drawn up on behalf of the Committee on External Economic Relations

**on the proposal from the Commission of the European Communities to the Council (Doc. 1-456/80) for a regulation on the conclusion of a framework agreement for cooperation between the European Economic Community and the Federative Republic of Brazil**

**Rapporteur: Mr H. J. LOUWES**



By letter of 26 September 1980 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 235 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation on the conclusion of a framework agreement for cooperation between the European Economic Community and the Federative Republic of Brazil.

The President of the European Parliament referred this proposal on 8 October 1980 to the Committee on External Economic Affairs as the committee responsible and to the Committee on Development and Cooperation for its opinion.

On 20 March 1980 the Committee on External Economic Relations appointed Mr Louwes rapporteur.

It considered this proposal at its meetings of 24 September and 21 October 1980 and at the latter meeting unanimously adopted the motion for a resolution and the explanatory statement.

Present: Sir Frederick Catherwood, chairman; Mr Seal, vice-chairman, Mr Louwes, rapporteur; Mrs Agnelli, Mrs Caretoni-Romanonoli, Mr De Clerq, Mrs Fourcade, Mr Giumarra, Mr Hänsch, Lord Harmer-Nicholls (deputizing for Sir John Stewart-Clark), Mr Lemmer, Mr Májonica, Mrs L. Moreau, Lord O'Hagen, Mr Radoux, Mr Seeler and Mr Welsh.

The opinion of the Committee on Development and Cooperation is attached.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Regulation on the conclusion of a framework agreement for cooperation between the European Economic Community and the Federative Republic of Brazil

The European Parliament,

- whereas on 28 May 1980 the President-in-Office of the Council, pursuant to the Luns-Westerterp Procedure, notified the relevant committees of the conclusion of a cooperation agreement between the EEC and Brazil,
  - having regard to the proposal from the Commission of the European Communities to the Council<sup>1</sup>,
  - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Development and Cooperation (Doc. 1-529/80),
1. Notes that in a relatively short period Brazil has undergone extremely rapid industrial development, and has become an important economic partner in the world;
  2. Points out that, partly as a result of the energy crisis, Brazil is confronted by a difficult external economic position, and that the country is contending with growing social tensions created by the great incomes disparities in its population;
  3. Regards Brazil as pre-eminently a 'newly industrialized country', but also as a partner in the Third World, and from this fact concludes that relations between Brazil and the Community should as far as possible be founded on the basis of reciprocity, whilst taking into account the serious internal situation of that country;
  4. Welcomes the agreement on trade and economic cooperation signed recently by the two parties, in view first of the complementary nature of their economies and second of Brazil's growing significance in the world economy;

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<sup>1</sup>OJ No. C 169, 9.7.1980, p. 3

5. Is aware that Brazil is rich in raw materials and still affords considerable investment opportunities, in exchange for which the Community could make a contribution to the further development of the country by making available capital and technology;
6. Notes that the cooperation agreement is an outline agreement to be supplemented by separate measures and provisions, and therefore requests the Commission of the European Communities, possibly through the Joint Cooperation Committee to provide the relevant parliamentary committees
  - with details of the measures by which it is proposed to implement the agreement
  - with figures, at regular intervals, on the development of trade and investment between the EEC and its Member States and Brazil, and
  - to report at regular intervals on progress made under the cooperation agreement;
7. Considers, in this connection, that it is vitally important that Brazil should provide Community investors with greater security and should not nullify existing contracts by subsequent government measures;
8. Considers it of fundamental importance that a solution be found rapidly to the difficult problem of the sea transport of goods between Brazil and the Community, bearing in mind that a further exchange of notes only containing a declaration of intent as in 1973, is no longer adequate;
9. Considers it of fundamental importance that Brazil should do its utmost to accelerate the curtailment of existing tariff and non-tariff import restrictions;
10. Considers it important that, provided Brazil agrees, a permanent delegation from the Commission should be established in Brazil so as to contribute in a practical way to the implementation of the cooperation agreement;
11. Points out that regular meetings between Members of the European Parliament and the Brazilian Parliament can also make a contribution to the development of mutual relations and the successful application of the cooperation agreement;
12. Instructs its President to forward this resolution and the relevant report to the Council and the Commission and also to the Government and Parliament of the Federative Republic of Brazil.

EXPLANATORY STATEMENTI. INTRODUCTION

1. With almost 120 million inhabitants and a total area of over 8.5 million square km, Brazil is one of the largest and most influential countries of the Third World. Having experienced extremely rapid growth, particularly in the decade up to 1973, Brazil has become a partner of exceptional significance both to the developing countries and the industrialized world. Over that period the country increased its GNP considerably - by as much as 12% a year - and exported its products all over the world. Brazil now maintains close economic and cultural links with a number of developing countries in Africa, while relations with the other Latin-American countries are being further consolidated. A crucial role in this rapid economic advance has been played by the provision of investment and technology from the industrialized countries. Hence the Federal German Chancellor, Mr Schmidt, was obviously correct in pointing out that Brazil is exceptionally well suited to playing a moderating role as an intermediary in the confrontation between the developing countries and the industrialized world. International economic relations have been characterized in the last few years by the emergence of 'recently industrialized countries', of which Brazil is a striking example.

2. This perhaps somewhat forced pace of economic growth has also had certain adverse effects, which have been particularly evident since 1973 when the energy crisis began to make itself felt. The country has become increasingly dependent, in both relative and absolute terms, on oil imports, since not only must larger quantities of oil be imported, but also the cost of such imports has been eating into a steadily growing proportion of export revenue. This has led to a deterioration in the balance of payments and has also boosted a foreign debt which is one of the highest in the world. Brazil's industrialization has largely been achieved with the help of foreign capital, and the money left over for interest payments on these loans and their eventual repayment is constantly diminishing. In these circumstances it is not surprising that inflation has taken on dramatic proportions. In the event the Brazilian 'economic miracle' has failed to provide an answer to the tremendous problems of social and regional inequality with which the country is still contending. Although the process of democratization launched a few years ago is an encouraging sign, this process - albeit a welcome development in itself - will definitely heighten the political consciousness of the population, as a result of which the possibility of considerable social conflict in the future cannot be ruled out.

3. The strengthening of economic relations between the Community and Brazil is in the interest of both parties for a number of reasons, but for the present it is enough to say that the Community is Brazil's largest export market and that the Nine as a whole are the largest foreign investors in Brazil. The Community and Brazil have maintained contractual relations for many years in a number of areas such as:

- the agreement on the development of atomic energy for peaceful purposes, which took effect in 1965 and expires in 1985;
- the non-preferential trade agreement, which came into force in 1974, and has been extended yearly since 1977, and contains specific provisions over and above the 'most favoured nation' clause, to facilitate the import of cocoa butter, soluble coffee and beef and veal (similar agreements have been concluded with Argentina and Uruguay);
- the voluntary restraint agreement in the field of textiles, concluded under the Multifibre Arrangement, which entered into force on 1 January 1978 and expires at the end of 1982, covering 13 textile products, four of which are 'sensitive';
- an exchange of letters dated 26 March 1979, regularizing the trade in steel products (Brazil is the largest supplier of iron ore to the Community);  
and
- finally - though this is obviously not a contractual arrangement - Brazil is the country to have benefited most after Yugoslavia from the Community's Generalized System of Preferences (GSP) (about 10% of Brazilian exports to the Nine come under the GSP).

4. In view of the growing mutual interests of the Community and Brazil, the two parties' decision to step up their economic and trade relations by concluding the present outline agreement, initialled on 17 April 1980 and signed on 18 September 1980, is an encouraging sign. This cooperation agreement takes the place of the 1973 trade agreement and in principle covers every sector of economic cooperation falling within the Community's powers (known as an 'evolutionary' agreement). It will run for five years and is based on Article 235 of the EEC Treaty, which means that Parliament must be formally consulted.



## II. SOME FACTS ABOUT THE BRAZILIAN ECONOMY<sup>1</sup>

### Rapid industrial growth

5. In the ten years leading up to the oil crisis of 1973, Brazil experienced an unequalled pace of development, particularly in the industrial and services sector. With an annual growth rate of around 12% in the period 1967 to 1974 it was one of the fastest growing countries in the third world. Agricultural production also increased substantially, though to a lesser extent than the other sectors. The services sector in particular is tremendously important. In 1977 the respective share of the agricultural, industrial, and services sectors in the net domestic product was 12%, 37% and 51% (the same sectors' respective share of employment in 1974 was 40%, 19% and 41%). At the same time the government has managed to reduce inflation, which was running at around 100% before the military coup in 1964, to an annual rate of 20%. Finally, exports grew during this period by 30% a year.

6. Although its share in the domestic product is rather small, agriculture still plays a significant part in the country's external position. 49% of exports in 1977 consisted of agricultural products, with a further 13% consisting of products from the agricultural processing industry. Approximately 33% of the total land surface of Brazil is suitable for agricultural use, but only a third of this is under cultivation at present. The bulk of agricultural exports consists of coffee, cocoa, sugar, soya and maize. Indeed, Brazil is a leading producer of these products, producing, for instance, 25-30% of the world coffee harvest, which had an export value of 2,300 million dollars in 1977. Brazil is the second largest exporter of foodstuffs in the world after the United States.

7. In addition, Brazil possesses an abundance of mineral raw materials such as iron ore, bauxite, uranium, coal and virtually all non-ferrous metals. Exploitation of most of these minerals is still fairly limited. Iron ore, however, is mined on a large scale and this product ranks second after coffee in the list of exported goods.

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<sup>1</sup> Source:

- CR Bakhoven, 'Brazilië - Economie' (Royal Tropical Institute, Amsterdam)
- Basil Caplan, 'L'économie brésilienne à la croisée des chemins' ('The Brazilian economy at the crossroads') (Problèmes économiques, 14 November 1979)
- Various articles in the Latin America Weekly Report, NRC Handelsblad, Financial Times, Le Monde, Volkskrant, International Herald Tribune and the Economist

8. In view of its intensive industrial growth, particularly in petrochemicals, steel, motor vehicles and shipbuilding, Brazil has risen, in terms of GNP, to be one of the world's ten largest economic powers. The processing industry has become the fastest growing sector of the economy, with earnings per employee appreciably higher in this sector than in agriculture. Both of these factors have naturally affected the composition of exports, as can be seen from the following table.

Structure of Brazilian exports

	% share of exports	
	1970	1977
Raw materials	80	64
of which coffee	(35)	(21)
iron ore	(11)	( 7)
Semi-finished goods	9	8
Other processing industry	11	28

(Source: Central Bank)

Finally, all these factors have also supported a large-scale improvement of the country's infrastructure.

9. Foreign companies have been of substantial importance in the growth of the Brazilian economy. Since 1964 the influence of the multinationals has greatly increased. They at present control between 25 and 30% of economic activity, particularly in the growth sectors (roughly half of the larger companies are of foreign origin, being mainly from the United States, Japan and the Federal Republic). Practically the entire motor vehicle and pharmaceutical industries, as well as large sections of the petrochemicals and electronic industries, are in foreign hands. Brazil nevertheless also has a large public sector in a dominant position, with more than 50% of economic activity. Local private industry is thus fairly modest in scale with a share of about 20%, and this has prompted sharp criticism in certain quarters.

10. The multinationals are at a great advantage over national companies in certain respects in that they have easier access to the foreign credit market (there is a shortage of Brazilian risk capital) and they can afford to run at a loss until their products have achieved market penetration and can call on more advanced technology and more experienced management. In these circumstances it is easy to account for the growth in the number and influence of foreign banks represented in Brazil.

Thus far, Brazil could be said to have made a success of capitalist development.

Less positive aspects

11. The fabulous, if not forced and unbridled growth of the Brazilian economy - the word 'miracle' is used - unfortunately has its negative side, since the country is increasingly preoccupied with two extremely serious problems, namely:

- a) an unfavourable external position, and
- b) social tensions.

a) The unfavourable external position

12. The continuing increase in the price of crude oil and the decline in world trade after 1973 have obviously been a severe blow to a country whose large growth in capacity and export expansion is so dependent on oil imports and foreign capital. Foreign debts had reached 50,000 million dollars in 1979 (the highest in the world), while the balance of payments deficit amounted to 10,000 million dollars and the trade deficit 2,700 million dollars in the same year. Crude oil imports at present absorb roughly half of total export revenue. As the oil cost share of the imports bill continues to rise and dependence on foreign capital increases it will not be easy to improve the balance of payments let alone restore equilibrium whilst curbing inflation, which has meanwhile again risen to over 100%.

The Brazilian Government is attempting to tackle these problems by the following means:

(i) greater emphasis on agriculture

13. Agriculture lagged behind industry in the period of the 'miracle'. By injecting new life into the agricultural sector it is hoped to stimulate employment and curtail the drift of large numbers of people towards the cities. Thousands of millions will be needed to improve the agricultural infrastructure (with irrigation networks, rail and road links). There are also fears in some quarters that this process will affect industrial investment, and could possibly lead to underutilization of industrial capacity in the long term.

(ii) encouraging exports and limiting imports

14. For this purpose the cruzeiro was devalued by 30% at the end of last year. Apart from boosting exports and limiting imports, this 'maxi-devaluation' will also attract direct investment. Moreover, it is thought that this measure will enable export subsidies to be cut back,

giving the government a weapon against protectionist moves in other countries. Imports of non-oil products are being curbed inter alia by fiscal means. We shall return to the question of existing import restrictions below. The government is endeavouring to achieve a balance between imports and exports this year, but there are widespread doubts as to whether this is feasible.

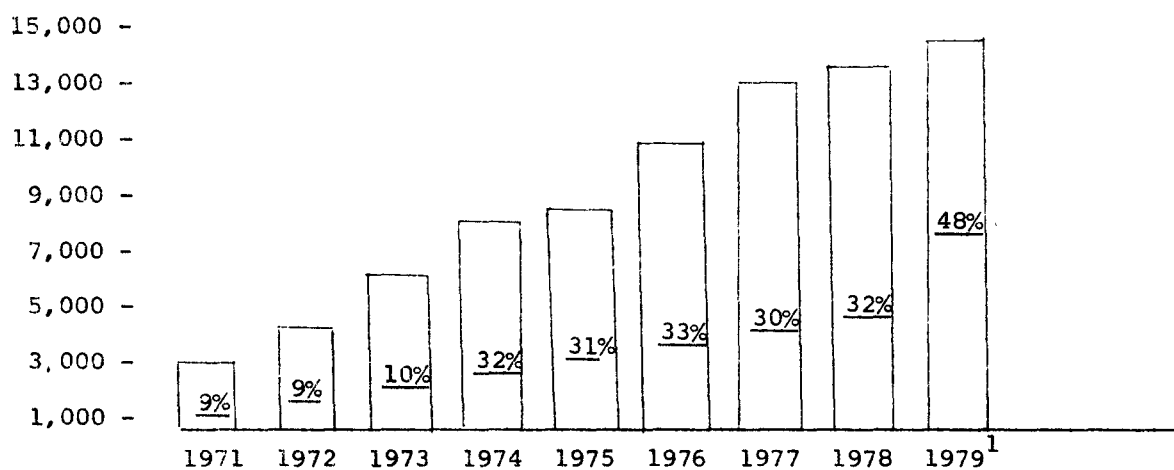
(iii) measures in the energy sector

15. As a result of rapid industrialization the demand for oil, and hence Brazil's dependence on foreign energy supplies, has increased enormously. The negative impact of this on the balance of payments has been compounded by successive oil price rises. The table below shows the relation between oil imports and export revenue.

Cost of Brazilian oil imports in relation to export revenue

(Latin America Weekly Report, 30.11.1979 - Source: Banco Central do Brasil)

in million US dollars



16. Over 80% of oil imports are purchased - on the basis of yearly contracts - from three countries, Iraq (ca. 40%), Saudi-Arabia (ca. 25%) and Iran (ca. 20%). It is possible that Brazil has had to resort to the Rotterdam spot market since Iran began to cut down production in 1979. As there is a deficit on the balance of trade with the Middle East of 3,000 million dollars, it is easy to understand why every effort is being made to shift the foreign sources of supply by increasing imports from other parts of the world, such as West Africa and Latin America.

<sup>1</sup> Estimated figure

17. Although domestic oil production is gradually increasing it is a long way short of demand. Moreover the share of Brazilian oil in total domestic oil consumption declined dramatically during the 70s, from about 33% in 1971 to roughly 13% in 1979, so that Brazil now has to turn to foreign sources for almost 90% of its oil supplies. Among the methods being used by the Government to redress this serious situation are:

- boosting domestic production, which it is hoped can be trebled by 1985, not only through the state-controlled company Petrobrás, but also by offering foreign companies operating under 'risk contracts' and the prospect of substantial concessions if they find new oil fields;
- limiting consumption by increasing domestic energy prices (for petrol, electricity, public transport etc.). Last year's maxi-devaluation has already worked through to price increases in this area. So far this measure has achieved limited success since - in the first ten months of 1979 at any rate - imports increased by a good 8%. Moreover, a wave of price increases of this kind creates serious social problems;
- the development of alternative energy sources. Hydroelectric power is the main source of energy after oil, producing 25% of total energy requirements. For the period to 1985 there is a 37,000 million dollar investment programme designed to develop Brazil's hydroelectric potential further. A large part of this is taken up by the 'Itaipu project', located on the River Paraná on the border with Paraguay, which will be by far the largest power station in the world. The programme for the development of nuclear energy has been played down somewhat in view of the emotive nature of the subject. Finally Brazil is also conducting a remarkable alcohol production programme, the aim of which is to use alcohol produced from sugar cane as a motor fuel. 5,000 million dollars are reserved for this project up to 1985; Brazil is already the most advanced country in the world in this area. The table below shows the proportion of total consumption taken or expected to be taken by the various sources of energy. The sharp rise in the percentage for coal is particularly striking.

Energy sources: percentage share of total consumption

Energy source	1966	1976	1982	1985
Oil	32.8	43.3	38.5	38.8
Gas	0.2	0.4	0.9	0.8
Hydroelectric power	16.5	23.5	31.5	31.1
Wood	38.4	21.5	12.9	9.8
Sugar waste	5.7	4.2	4.6	4.9
Coal	5.8	6.7	8.9	9.5
Alcohol	0.6	0.1	1.9	1.7
Nuclear energy	-	-	0.8	4.0

(Source: Ministry of Mining and Energy)

18. By promoting exports, boosting production - whilst giving priority to agriculture, encouraging oil production and developing new energy sources, the Brazilian government has unequivocally opted for a growth model. The Minister of Planning is in fact aiming at an annual growth rate of about 7%, taking the line that a country in which 1.5 million new jobs must be created every year cannot afford to mark time. The fact remains however, that if these objectives are to be achieved, oil imports will continue to rise (at least in the next few years) and more foreign capital will have to be attracted to the country.

19. Over the past fifteen years Brazil's favourable economic and political climate has proved a powerful attraction to international money-lenders, who have consequently become closely involved in the country's economic life. For these reasons the likelihood of international capital pulling out of Brazil as a consequence of the deteriorating external trade position is not very great. Credit will obviously be provided on tougher terms in future, for shorter periods and - partly as a result of the international situation - at higher interest rates. The cost of oil imports is expected to rise from 7,000 million dollars in 1979 to between 10 and 13,000 million dollars (depending on OPEC prices) in 1980. A forecast of the external position for 1980 follows in the table below. This shows that foreign debts will rise to almost 60,000 million dollars.

Brazil's foreign accounts, 1979/80

(LAWR estimates in ,000 m US \$ - Latin America Weekly Report, 14 December 1979)

	1979	1980
Exports	15.5	19.5
Less imports	17.8	20.5
Trade deficit	2.3	1.0
Service deficit	7.5	9.5
Current account deficit	9.8	10.5
Amortization of foreign debt	6.1	7.5
Total funds required	15.9	18.0
Planned source of funds:		
(i) use of foreign reserves	3.0	-
(ii) expected direct investment inflow	1.5	1.5
(iii) required foreign borrowing	11.4	16.5
Total	15.9	18.0
Total foreign debt	49.1	58.1
Net foreign debt	31.6	40.6

20. At the same time the government is taking steps to bring down inflation to a, for Latin America, acceptable level of 50%. This is being done inter alia by the introduction of taxation on private unearned income and through index reference measures. In view of the fact that the rate of inflation had already reached 18% in the first three months of 1980 there are widespread doubts as to whether the target figure will be attained. Measures in the pay sector will undoubtedly meet with strong resistance from the population.

b) Social tensions

21. Although average earnings per capita may be reckoned to be amongst the highest in Latin America (there is a definite link between the level of industrialization and per capita earnings) the 'miracle' has not provided any solution to social problems, which have grown steadily more acute. This may be illustrated by the following figures:

- approximately half the population is living on an income of less than 1,000 dollars a year;
- in 1976, 5% of the population enjoyed 39% of GNP, whilst 50% had to make do with 11.8%;
- more than half the number of farms take up only 2.8% of the total land area, whilst almost half of agricultural land is occupied by 0.8% of the total number of farms (the large landowners).

22. Population growth of 2.8% is accompanied by a process of urbanization that has been still further accelerated by the exodus of labour from the agricultural sector during the period of rapid industrialization. Brazil's cities are swelled every year by 3 million newcomers, most of whom are forced to find somewhere to live in the poorer districts, the so-called 'favelas' (Rio de Janeiro and Sao Paulo have populations of 7 million and 9 million inhabitants respectively). A variety of evils, such as poor hygiene and, in particular, a dramatic increase in the crime rate, have resulted from this. Moreover, the entire country is beset by the problems of malnutrition, high infant mortality, illiteracy and the lack of public services. There are regional disparities too: in particular, the living conditions of people in the north-east, whose forbears depended largely on the rubber plantations, are exceptionally distressing.

23. The Government is fully aware of this situation but is in a dilemma, since while it is being called on to make political, economic and social reforms, it is also facing an increasing burden of foreign debt, and too rapid a change of direction could deter foreign creditors; on the other hand the continued absence of improvements in the social and economic sector will

undoubtedly fuel the impatience of the population. With the introduction of a hidden tax on unearned capital (in the form of compulsory interest-free loans to the State) the government seems, under the pressure of the growing social tensions, to have taken a step in the direction of fairer incomes distribution.

24. The process of democratization which Brazil has been going through for some time and which has accelerated since General Figueiredo became president in early 1979, is accompanied by the increasing political consciousness of the working population. The government is blamed inter alia for devoting too much attention to political reform, and disregarding economic and social change. The high cost of living, combined with the recent wave of price increases, has contributed to the inevitable unrest. There have been a number of strikes over the past two years, culminating in the strike involving 200,000 workers in the metal working sector, when the charismatic leader, known as 'Lula', was imprisoned.

25. While most trade unions are still to some extent dependent on the Ministry of Employment or local officialdom, the fact remains that Brazilian workers are better organized and more militant than in the period of the 'economic miracle'. This fact will have to be taken into account both in Brazil itself and beyond its frontiers. Recent comments from various quarters certainly point in this direction, such as that by the former Minister of Finance, Mr Rischbieter, to the effect that there was bound to be an outbreak of unrest in the near future, or the conclusion by the World Bank in a recent report that without a large-scale redistribution of income no progress would be made in eliminating the present deficiencies. In other words, the government is facing a political choice with far-reaching implications.

#### Relations with the Third World

26. Brazil is clearly following a pragmatic line in its foreign policy, as is shown by its endeavours to achieve the greatest possible diversification in its economic links with other countries, including countries of the Third World, of which it considers itself a part. Brazilian exports to the developing countries consist largely of 'tropical' technology, i.e. simple, cheap industrial goods adapted to tropical conditions. It is also the largest arms exporter in the Third World.

27. Brazil's African policy may be said to have been a success. It has close historical and cultural links with Angola (where the same language is spoken, for instance). It is also significant that Brazil was the first 'western country' to recognize the MPLA Government in 1975. Brazil imports oil from Angola, and the Brazilian state-controlled Petrobrás company is actively involved in oil extraction in that country. Quite large quantities of oil are also imported from Nigeria; in five years, trade between Brazil and



Angola and Brazil and Nigeria has multiplied tenfold. The Ivory Coast is an important partner with Brazil in international negotiations in the cocoa sector since that country is the largest - and Brazil the third largest - cocoa producer in the world. Brazil also maintains trade relations with Guinea Bissau. Although Brazil has condemned the South African apartheid regime and lends its support to various independence movements (in Namibia and formerly in Rhodesia) it has maintained good business relations with that country (the volume of trade having doubled since 1976).

28. In some Middle Eastern countries Brazil has made an important contribution to infrastructure facilities and helped with arms supplies.

29. Most recently Brazil has been actively engaged in consolidating its relations with its Latin-American partners. Its traditional rivalry with Argentina has diminished (a Brazilian president recently paid the first official visit to that country for 45 years) and it is also working towards closer cooperation with the countries of the Andes Pact (Venezuela, Colombia, Ecuador, Bolivia and Peru) which constitute a promising market for Brazilian exports. In exchange for more oil from Venezuela, Brazilian technology is offering, inter alia, its know-how in the nuclear sphere.

30. All this prompts the conclusion that Brazil is one of the West's most important partners in the Third World, and at the same time, a link of exceptional significance between the industrialized and the developing countries.

### III. ECONOMIC RELATIONS BETWEEN THE COMMUNITY AND BRAZIL

#### Trade relations and investment

31. The Community takes 30% of Brazilian exports and is thus the country's largest market (only 18% go to the United States). In 1978 3,500 million dollars' worth of goods was exported to the Nine, raising Brazil to sixteenth place in the league table of the Community's suppliers. Three-quarters of these exports consisted of raw materials and agricultural products: coffee, soya and iron ore together account for 56% of total exports to the Nine. Between 1975 and 1978 the export value of coffee increased considerably, despite a reduction in volume, as coffee prices trebled following poor harvests in Brazil. The share of industrial goods - including processed agricultural products - in exports to the Community has nevertheless risen steadily from 10% in 1970 to 27% in 1977.

32. The trade balance between the partners has traditionally - with the exception of 1974 and 1975 - shown a deficit on the Community side<sup>1</sup>. Brazil's overall trade balance, however, is in deficit, which must be attributed

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<sup>1</sup> See Annex I to this report

primarily to oil imports (though in the case of the United States and Japan the balance is in surplus)<sup>1</sup>. Hence the trade deficit with the Community is of great value to Brazil in easing the burden of its external oil costs.

33. Imports from the Community consist primarily of machinery and transport goods. Penetration of the Brazilian market is not easy because the import system is generally highly restrictive. Brazil uses the following mechanisms to limit its imports:

- high import duties;
- suspension of the granting of import licences;  
the theoretical purpose of the general system of import licences, which are supposed to be allocated automatically, is to monitor import prices and facilitate exchange control. This system obviously makes it possible to suspend the granting of licences at any time. But there is also a long list of products on which licences are not granted;
- the law on similar national products;  
the importer is required to prove that a similar national product does not exist in terms of price, quality and delivery time. If it does he must pay extremely high customs duties; otherwise he may obtain exemption from such duties;
- minimum prices;  
the Brazilian administration applies procedures of its own devising to determine the customs value; the mechanism for fixing minimum prices is in effect Brazil's antidumping legislation;
- surcharge;  
there are two surcharge levels: 100% and 30%, depending on the degree of necessity for the import.

In view of these facts, therefore, the widespread criticism that the Community is a protectionist and discriminatory trading bloc does not - at least in relation to Brazil - entirely accord with reality.

34. For this reason at the moment Brazil is of greater interest to the Community as an investment area than an export market. In late 1978 investments by the Nine amounted to 4,500 million dollars, which is equivalent to

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<sup>1</sup> See Annexes II and III to this report

32% of total foreign investment in Brazil (13,700 million dollars). (The United States invested 3,800 million dollars, Switzerland 1,600 million and Japan 1,400 million.)

#### The cooperation agreement

35. The scope of the present cooperation agreement is significantly greater than that of the trade agreement of 1973, which was principally designed to facilitate the access of certain agricultural products - cocoa butter, soluble coffee and beef and veal - to the Community market. This agreement establishes a wide framework of economic and trade cooperation and therefore contains no specific provisions. It is characterized in particular by the following points:

(i) commercial cooperation

- application of 'most favoured-nation' clause;
- the development and diversification of trade relations;
- consideration of ways of removing existing barriers to trade, particularly in the non-tariff sector;
- taking account of each partner's interests with regard to mutual access to raw materials and industrial products;

(ii) economic cooperation

- evolutionary in character: in principle no one sector of the economy is excluded from cooperation;
- development of cooperation between each partner's industries;
- promotion of cooperation in the field of science and technology;
- contributing to improving the standard of living;
- cooperation in the field of energy;
- cooperation in agriculture;
- the creation of favourable conditions for expanding investment;
- cooperation in relations with third countries;
- the maintenance of bilateral cooperation between the Member States and Brazil;

(iii) the establishment of a Joint Cooperation Committee composed of representatives of the Community and Brazil, to be responsible for application of the agreement and to meet at fixed intervals for this purpose;

(iv) a duration of five years, with the option of annual extension.

#### Specific difficulties

36. During the negotiations two matters gave rise to extensive differences of opinion:

a) the promotion of investment protection: the argument here was between Brazil and some large Member States on the one hand, and the Commission, one large Member State and the smaller Member States on the other. Brazil wanted to avoid incorporating specific provisions on this point in the agreement by keeping to a very general form of words - 'the creation of a favourable climate', taking the view that foreign investment was already adequately protected. The large Member States were also unenthusiastic about specific provisions, partly for political and partly for economic reasons: either because it was felt that the investment issue was really the prerogative of individual Member States, or because of a conviction that better safeguards could be obtained at bilateral level. The outcome of this debate was a compromise in Article III(2)(f) to the effect that the Parties would take appropriate measures to establish favourable conditions for the expansion of investment to the mutual advantage of the parties concerned. But the agreement contains no provision prohibiting discrimination in the field of investment protection and guarantees;

b) sea transport: for years Brazil has reserved the right to ensure that exports of Brazilian products to Europe were carried in vessels of Brazilian shipping lines. The Commission and the various Member States take the view that some provision must be included in the agreement to settle this issue. One large Member State prefers, however, to settle this matter at bilateral level as well. By way of compromise an exchange of letters is attached to the agreement to the effect that a mutually satisfactory solution will be sought between Brazil, the Community and the Member States. The 1973 agreement also included an exchange of letters of this kind but the situation has not changed since.

37. The concept of reciprocity seems to have been taken into account in the fact that the cooperation agreement is intended to serve the interest of both parties: for Brazil the promotion of trade, cooperation in the field of science and technology and industrial development is particularly important, with a reduction in Brazil's dependence on the United States as a possible side-effect. The Community benefits mainly from a favourable investment climate, the elimination of barriers to trade, cooperation in the field of energy and access to Brazil's natural resources. Finally, it is of significance for the Community that Brazil will be playing a greater role in the world economy and that the country constitutes a market of enormous potential.

38. This cooperation agreement is one of the so-called 'second generation' agreements, or non-preferential framework agreements with countries that have attained a certain level of industrial development (of which other examples are the agreements with ASEAN, India and, in the near future, the Andes group), and with which relations should therefore be placed on a new footing.

#### IV. CONCLUSIONS

39. Relations between the Community and Brazil can only be properly assessed in the light of a number of factors which are characteristic of that country. Especial attention should be given to a question of fundamental importance to the Community's attitude to Brazil, namely, the extent to which Brazil counts as a developing country, an industrialized country, or what is known as a 'threshold' country. This is a question with many facets, and it can only be answered by careful discrimination. The fact is that Brazil cannot simply be classified in one of the categories mentioned.

40. As is clear from the foregoing chapters of this report, Brazil has grown to become an economic power of some importance and should be taken seriously by the West, both in the industrial sector and in agriculture. On the other hand, as has been seen, the country is also facing a number of extremely serious economic and social problems (foreign debts, dependence on oil imports and social and regional imbalances) which are not found in the West, at least on anything like the same scale. In addition Brazil, as the largest Latin-American country, regards itself as part of the Third World, and is cultivating its relations with other developing countries - primarily in West Africa - at a steady pace and where possible on an equal footing.

Hence it is clear that Brazil's economic and social structure shows features both of a developing and an industrialized country. Should Brazil be considered a 'threshold' country for these reasons, i.e. a developing country on the way to becoming an industrialized nation?

Although this certainly looks close to being the case, the answer to this question will depend on a number of vital factors, such as the way the economic situation develops and how Brazilian domestic politics respond to that development. It may be said, perhaps somewhat cynically, that Brazil is, and will always remain, the country of the future.

41. What conclusions should the Community draw from these facts? In our view, Brazil should certainly be regarded as a developing country, but at the same time it should be remembered that it has many industries providing strong competition for the industrialized countries.

Brazil must, in our opinion, take account of the rules observed by the industrialized countries in international trade, with the essential corollary that both Parties should in their dealings with one another in the competing sectors act on the basis of equality. This means in practice, amongst other things:

- a) Brazil should become a party to the codes adopted by GATT, and should observe them in practice;
- b) Brazil should proceed to the gradual abolition of its not inconsiderable tariff and non-tariff barriers to trade, as mentioned above;

- c) Brazil should call a halt to its export subsidies for industrial goods, since these constitute an unfair threat to Community manufacturers;
- d) Brazil should facilitate capital investment and service arrangements with companies in the Community;
- e) Brazil should provide investors from the Community with a greater measure of security and should not take steps to cancel existing contracts by means of government measures purporting to be in the public interest;

42. It is hoped that this cooperation agreement will prove to be a useful instrument with which to tackle these problems, whilst promoting cooperation in all the areas described in the agreement, in the interest of both Parties.

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COMMUNITY TRADE WITH BRAZIL(in m EUA)<sup>1</sup>

Year	Imports	Exports	Balance
1958	321	311	- 10
1965	567	203	- 364
1968	702	551	- 151
1970	1,056	710	- 346
1971	1,056	964	- 92
1972	1,345	1,202	- 143
1973	1,978	1,447	- 531
1974	2,275	2,617	+ 342
1975	2,214	2,309	+ 95
1976	2,754	2,216	- 538
1977	3,440	2,209	- 1,231
1978	3,048	2,117	- 931
1979 <sup>2</sup>	3,602	2,373	- 1,229

<sup>1</sup> European Unit of Account<sup>2</sup> Provisional figures

Source: Eurostat

GEOGRAPHICAL STRUCTURE OF BRAZIL'S FOREIGN TRADE BALANCE

(in m US\$)

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

<sup>1</sup> Including Cuba<sup>2</sup> 19 continental countries, plus Haiti and Santo Domingo

Source: IMF Trade Directorate



MAY 1979

GEOGRAPHICAL STRUCTURE OF FOREIGN TRADE IN 1977

(in m US\$)

	Exports		Imports	
	1977	%	1977	%
Total	12,137	100.0	13,193	100.0
of which				
I. Industrialized countries	<u>8,329</u>	<u>68.6</u>	<u>7,270</u>	<u>55.1</u>
of which				
- USA	2,149	17.7	2,621	19.9
- Japan	685	5.6	937	7.1
- EEC (9)	3,903	32.2	2,531	19.1
- Others	1,592	13.1	1,181	9.0
II. State-trading countries <sup>1</sup>	<u>965</u>	<u>8.0</u>	<u>193</u>	<u>1.5</u>
III. Developing countries	<u>2,745</u>	<u>22.6</u>	<u>5,731</u>	<u>43.4</u>
of which				
- Latin America <sup>2</sup>	1,560	12.9	1,520	11.5
- Others	1,185	9.8	4,211	31.9

<sup>1</sup> Including Cuba<sup>2</sup> Excluding Cuba

Source: IMF Trade Directorate

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman: Mr W. VERGEER

On 21 October 1980 the Committee on Development and Cooperation appointed Mr W. VERGEER draftsman of the opinion.

It considered the draft opinion at its meeting of 4 December 1980 and adopted it unanimously.

Present: Mr Poniatowski, chairman; Mr Bersani and Mr Kühn, vice-chairmen; Mr Vergeer, draftsman; Mrs Cassanmagnago-Cerretti (deputizing for Mr Lücker), Mrs Castellina, Mr Cohen, Mr Ferrero, Mr Haagerup (deputizing for Mr Sablé), Mr Jaquet, Mr Lezzi, Mr Michel, Mr Narducci, Mr Pearce, Mrs Rabbethge, Mr J.D. Taylor (deputizing for Mr Sherlock), Sir Fred Warner and Mr Wawrzik.

## Introduction

1. A framework agreement for cooperation between the European Economic Community and the Federative Republic of Brazil was initialled on 18 April 1980 and signed on 18 September 1980. The following additional texts were attached to the agreement:

- an annex on the marketing of cocoa butter and soluble coffee
- an exchange of letters on sea transport
- a protocol concerning commercial and economic cooperation between the European Coal and Steel Community and the Federative Republic of Brazil.

This agreement will replace the EEC-Brazil agreement which has been in force since 1 January 1974.

2. With a population of some 120 million and an area of over 8.5 million square kilometres, Brazil is the second largest developing country after India. Its per capita GNP of \$1,570 (in 1978) places it near the top of the list of middle income countries (Portugal's per capita GNP amounted to \$1,990 in 1978). Nevertheless, Brazil considers itself part of the third world and plays an active part in the "Group of 77". Its rapid economic growth, with an average annual increase of 4.9% between 1960 and 1978, as well as its considerable resources and population, makes Brazil an important trading partner and investment area for the Community.

3. The present agreement is significantly more comprehensive than its predecessor which came into force on 1 January 1974. It consists of 10 articles. The text has been transmitted to Parliament in Doc. COM(80) 285 final. It provides that each party shall accord most-favoured-nation treatment to the other in commercial relations. The agreement deals in particular with commercial and economic cooperation. Under the heading of commercial cooperation, the contracting parties undertake to promote the development and diversification of economic relations, to study the means of overcoming trade barriers, including non-tariff and quasi-tariff barriers, to cooperate bilaterally and at multilateral level in the solution of commercial problems including those relating to commodities, semi-manufactured and manufactured goods, to consider access to and the further processing of resources and to encourage trade promotion.

4. With regard to economic cooperation, this agreement is evolutionary and no specific economic sector is excluded. Its objectives include industrial development, the opening up of new sources of supply and markets and the development of the economy and standard of living of each party. Specific reference is made to cooperation between industries, in particular through joint ventures, greater participation by economic operators in industrial development, the promotion of favourable conditions for the expansion of investment, and cooperation in the energy sector, in science and technology,

in agriculture and in respect of third countries. It should be noted that this agreement does not affect the rights of the Member States of the EEC to undertake bilateral activities with Brazil or to conclude possible new economic cooperation agreements. The agreement has been concluded for a period of five years and is renewable on a yearly basis unless denounced by either party. The provision is also made for the establishment of a Joint Cooperation Committee, which should meet at least once a year, though additional meetings may be called by mutual agreement between the parties. The role of this Committee is to promote and keep under review the various commercial and economic cooperation activities envisaged between Brazil and the Community. Consultation could be held in the Committee to facilitate the implementation of the agreement and to further its general aims.

5. The Committee on Development and Cooperation notes that, in common with most agreements of this nature, the wording of this agreement is particularly vague. It is to be hoped that the sentiments contained therein will result in concrete realisations.

#### Comments on the framework agreement for cooperation

6. Because of Brazil's relatively favourable level of economic development the present agreement differs from the form of agreement that would be made with a less developed country, being fundamentally commercial and economic in nature. It should, nevertheless, be noted that increased trade between the Community and Brazil, and further economic development, should operate in the interests of all sectors of the population of Brazil, including the least advantaged. At present Brazil is suffering from serious social tensions, due inter alia to the rapidity of its industrial development, the flow of population from rural areas into the rapidly growing towns, and the high rate of inflation which can, to a great extent, be attributed to Brazil's dependence on imported hydrocarbons, a dependence which has been aggravated by rapid industrialisation.

7. It appears that little progress was made towards a more equitable distribution of wealth during the period 1974-1979, though it is to be hoped that the somewhat more liberal regime instituted by General Figueiredo, who came to power last year, will take steps to better the situation of the poorest sectors of society, inter alia by the introduction of improved social and labour norms. It is moreover to be hoped that this agreement, aimed as it is at promoting 'social progress' (7th preamble) will contribute to further improving the situation with regard to human rights in Brazil, a consideration to which the European Parliament gives great weight.

8. Trade between the Community and Brazil is particularly important for the latter. The Community is Brazil's largest market, accounting for 30% of that country's exports, and in 1978 \$3,500 million worth of goods was imported from Brazil. These imports consisted mainly of raw materials and agricultural products, particularly coffee, soya and iron ore. Brazil is the world's most important exporter of coffee, and is the Community's largest supplier of iron ore. The trade balance between the Community and Brazil has

generally shown a surplus in favour of Brazil. This surplus amounted to 931m EUA in 1978 and 1,229m EUA (provisional figure) in 1979. Brazil's overall trade balance is, however, in deficit, largely due to the increasing cost of hydrocarbon imports. Thus its positive trade balance with the Community is of considerable assistance in reducing the level of its trading deficit. The Community's failure to penetrate the Brazilian market more effectively is due in large part to Brazil's restrictive import system, though a considerable volume of investment by Community undertakings has taken place in Brazil.

9. With regard to trade in coffee and iron ore, the Committee on Development and Cooperation wishes to draw the attention of the Committee on External Economic Relations to the question of processing in countries of origin. Brazil is a major producer of soluble coffee. The GSP provides for a 9% preferential rate of duty for soluble coffee coming within a quota which is adjusted annually. The Committee on Development and Cooperation believes that economic development requires the building-up of processing industries in developing countries, a demand which is consistently made by the developing countries themselves. This Committee accordingly hopes that duties on imports of processed products from developing countries will, where possible, be phased out. Such steps would obviously require consultation both between developing countries and the Community and between the Community authorities and the European sectoral interests involved. The Joint Cooperation Committee provided for in Article 4 of the framework agreement could play a role in so far as consultation between Brazil and the Community is concerned. Possible difficulties in the footwear sector could also be considered by the Joint Cooperation Committee.

10. With regard to imports of iron ore, the situation is particularly delicate. Brazil is, as has been mentioned above, the Community's largest exporter of iron ore. Brazil is at present in the process of building up an indigenous steel industry which is highly competitive. Its steel production increased from 9 million tonnes in 1976 to almost 14 million tonnes in 1979. It is known that Brazil would be interested in penetrating the Community's steel market. In view of the current crisis affecting the European steel industry it is important that contacts be made with Brazil before the situation becomes too serious. Here again the Joint Cooperation Committee could have a role to play. It should be noted that a protocol concerning commercial and economic cooperation between the ECSC and Brazil is attached to the agreement.

## Conclusions

11. It is understandable that Community development aid should be, to a great extent, concentrated on the poorest developing countries, where the need is greatest. In this regard the Committee on Development and Cooperation wishes to draw the attention of the Committee on External Economic Relations to the report <sup>1</sup> of Mr Ferrero on the campaign against hunger in the world, and the report <sup>2</sup> of Mr Nolan on financial and technical aid to non-associated developing countries. Such concentration should not, however, lead to the exclusion of the more developed third world nations. Countries such as Brazil still suffer from many of the characteristic deficiencies affecting the poorer LDCs, and within Brazil large sectors of the population live at or below subsistence level. While development aid in the form of grants and transfers of funds to a country such as Brazil would be inappropriate, nevertheless increased trade and economic cooperation can make a real contribution to development. This is particularly true in the case of Brazil which is in a position to take advantage of commercial openings such as those which can be provided by an agreement of this nature.

12. The Committee on Development and Cooperation encourages the development of contacts between the Community and all developing countries. Links with Latin America are of particular importance and have hitherto been at a lower level than is desirable. It could be argued that, up to now, the Community has had no real cooperation policy with that area. This Committee calls on the Commission to formulate a global policy in respect of Latin America.

13. In view of its relatively advanced level of development, Brazil has obviously not benefitted from the programme for financial and technical cooperation with non-associated developing countries, nor does the present agreement contain a chapter on development cooperation. Imports from Brazil do, however, come under the Community generalised system of tariff preferences and Brazil is, after Yugoslavia, the country which has derived the most benefit from the GSP. An agreement such as that at present under consideration, vague though its terms may be, should operate in favour of the development of Brazil, and accordingly has the support of the Committee on Development and Cooperation.

<sup>1</sup> Doc. 1-341/80, OJ No C265 of 13.10.1980, p.37

<sup>2</sup> Doc. 34/77, OJ No C118 of 16.5.1977, p.60

14. This Committee feels that the Joint Cooperation Committee provided for under the agreement could have a useful role to play. It is to be hoped that it will be used as a forum for discussing trade in sensitive products which could have serious effects on a sector of the economy of either of the parties to the agreement. This Committee also maintains that the European Parliament, through its relevant Committees, ought to be kept informed of the proceedings of the Joint Cooperation Committee.

15. Your draftsman wishes to refer to a highly regrettable feature of the present procedure, whereby this Committee draws up its opinion on an agreement such as this after the agreement has been signed. He questions the utility of such a procedure and is pleased to note that the Committee on External Economic Relations is at present studying possible means of strengthening the European Parliament's participation in the negotiation and conclusion of international agreements by the EEC.

