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The 7th EU-Brazil Summit: What to expect

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The 7th EU-Brazil Summit, to be held in Brussels on Monday, February 24th, comes at an interesting time for the two strategic partners: both the EU and Brazil find themselves facing important internal challenges. For the EU, 2014 begins with the complex and controversial discussions regarding the banking union. It is also the year of the first European Parliament elections since the unprecedented rise in Euro scepticism and extreme rightwing tendencies of the recent years. At the same time, the Brazilian government is forced to deal with the realities of a disturbing drop in annual growth (predicted to barely reach 2% this year) rising inflation, political scandals and massive protests against the inadequacy of health, education and transport policies. Brazil also faces a tough year politically, with elections to be held in October, soon after the World Cup which has opened a “Pandora’s box”, in terms of corruption and inefficiency scandals.

What then to expect from the Summit? Contrary to previous years, it should be safe to speculate that leaders from both sides will be cautious and frugal with their declaration. Grand statements regarding cooperation in international security issues, as well as in development policy, which have so far failed to produce substantial results, are likely to be few. At the same time, however, three important issues for bilateral relations may well find renewed momentum in next week’s Summit.

(1) Boosting economic growth through trade and investment

Following last year’s Summit an Ad-Hoc Working Group was established in order to analyze bilateral economic issues including competitiveness, growth, employment and investment. It is likely that discussions will be led on the basis of the Group’s recommendations, which will inevitably refer to the need for the reduction of protectionism, the boost of investment and the need for private credit and public-private partnerships on the domestic and transnational level. Brazil is particularly preoccupied with the need for structural reforms, the development of infrastructure, the reduction of fiscal regulation, bureaucratic barriers to business. The resolution of these issues would profit from investment from the EU, which has declined by almost 50% after reaching its peak in 2010 (€44.8 bi in 2010 to €22,2 bi in 2012). At the same time, the EU’s reluctant confidence in its economic recovery could profit from growing investment from Brazil, which last year rose to become the fifth biggest investor in the EU.

The need for growth has also boosted EU-Brazil talks regarding the advancement of a free trade agreement between the EU and Mercosur in recent months. It is speculated that the absence of a concrete proposal regarding this issue

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was one of the key reasons for President Rousseff's consideration to cancel or postpone the EU-Brazil Summit last week. While, following last year's EU-CELAC bioregional Summit in January 2013, it was agreed that, by the end of the year, Mercosur and the EU would present official proposals for tariff reductions, until two weeks ago the prospects for that were slim on the South American side. This was mostly due to Argentina's refusal to include more than 70% of its total trade in a bi-regional free-trade agreement. This decision led Brazilian and Uruguayan diplomats to begin discussing the possibility of a "two-speed" agreement, which could also include Paraguay. On February 12th and 13th Mercosur negotiators met in Caracas with the goal of reaching a common position on this matter. Threatened to be left-behind, Argentina accepted discussing the inclusion of 87% of its total trade in the agreement, but the results of the discussion were neither clear, nor concrete.

While Mercosur-EU trade talks do not form part of the Brazil-EU Annual Summit agenda, it is likely that next week's Joint Statement will reflect reactions towards progress made in Caracas. It is also possible that – on the sidelines – a discussion may be held regarding the possibility of an "anything but trade" (rules, standards, investment, taxation, regulations, business facilitation and non-tariff barriers to trade) agreement between the EU and Brazil, which the Brazilian business community has at times appeared keen to push for.

Bilaterally, the EU and Brazil still need to resolve the issue of Brazil's tax incentives: the EU has often argued that Brazil uses a complex tax system and tax-free zones to develop its domestic industry at the detriment of imported goods; recent tax incentives to car producers have revived this dispute, with the EU threatening to take the issue to the WTO. This, if not resolved, could bring about serious disruptions to trade negotiations and bilateral ties.

(2) Air transport

Advancement in this area is likely to be made, not least due to the influence of the EU-Brazil business community. A sectoral dialogue on air transport market has been on the agenda since the 2007 Joint Action Plan. Both sides have been working to streamline their regulatory policies in areas such as environment, security, consumer's rights and anti-trust measures, as well as to reduce bureaucratic obstacles for the introduction of new companies in the Brazilian market. Negotiations on an air transport agreement were officially launched on January 31st 2014 with the aim to open up the EU-Brazil air transport market. It will aim to achieve convergence in areas such as security, consumer protection, competition and environment. Once the agreement is ready a substantial increase of flights at competitive prices between Brazil and EU member states is expected.

The Brazilian market is considered strategic for the EU external air transport policy, since the World Cup and the 2016 Olympic Games will boost the already fast-growing Brazilian market. The EU estimates that, in the first year of the agreement, there is room for an increase of up to 335.000 passengers, and generate up to €460 million consumer benefits a year. Initially, both sides aimed to sign the agreement during the VII summit, but it is not clear if this will be possible.

Maritime transport will soon follow on the cooperation agenda.

(3) Internet Governance

Ever since her inaugural speech in the 2013 UN General Assembly, in which the Brazilian President cancelled her visit to the USA on the basis of espionage revelations, internet governance has become a key issue in the Brazilian foreign policy agenda. Brazil's multistakeholder approach will be promoted in an international conference on the Future of

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Internet Governance in April. Only a week ago the EU Commission released its own report on Internet Policy and Governance, which echoed many of the Brazilian government's views, such as strengthening the Internet Governance Forum, defining the role of public authorities in the regulation of internet use (stressing the necessity of freedom) and facilitating a multistakeholder dialogue.

The main complaint from both sides regards the status of ICANN (Internet Cooperation for Assigned Names and Numbers), the private organisation that coordinates internet systems and protocols and which operates under the laws of the state of California. The EU Commission is working together with the Brazilian government to promote the April meeting. This issue will undoubtedly be a key point in the Summit.

On a more technical level, bilateral relations will be strengthened by the plan to build a fibre optic cable connecting Brazil and Europe to operate in 2016. Currently, almost 80% of Brazilian internet traffic is transmitted through the US. Plans for a cable linking Europe and Brazil have existed since before the spying revelations, but recent developments have reinforced the importance of direct intercontinental connection between Europe and South America. The public-private financing of the venture - apart from private companies, the Brazilian Development Bank, (BNDES) and the European Investment Bank (EIB) will also contribute - create momentum for business and investment¹.

¹ Brazil also plans to implement the following projects: a cable circumventing South America (connecting Brazil to Argentina and Chile, and allowing access to the Pacific cables), a cable to Africa (connected to Angola) and a BRICS cable, connecting the five emerging states.

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