

# The new approach of the European Union towards Mercosur: what is behind the launch of the strategic partnership with Brazil and what are its chances of being effective?

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**Abstract:** *On the historic occasion of the first EU-Brazil Summit in Lisbon on 4<sup>th</sup> July 2007, the European Union and Brazil signed a strategic partnership, based on their close historical, cultural and economic ties. In this way, Brazil enters into the restricted group of the EU's "strategic partners". What led the EU to launch a strategic partnership with Brazil? The initiative is considered to be, on the one hand, a recognition of Brazil as a key partner for the EU at the multilateral level, and on the other hand, a reflection of European concerns over the resurgence of populism in South America, in particular in Bolivia, Ecuador and Venezuela. The paper will seek to address two primary questions: firstly, what are the prospects of success of the strategic partnership between the EU and Brazil, especially with regard to its impact on the Mercosur integration process and on EU-Mercosur relations. Secondly, what lessons can be drawn from the strategic partnerships that the EU has launched with a selected group of countries about the goals and principles of EU foreign policy.*

## **I. Introduction<sup>1</sup>**

In recent years relations between Brazil and the European Union have been characterized by a combination of cooperation and conflict. Whilst in the political field both share common values and a strong commitment to multilateral institutions, differences and tensions have dominated dialogue on trade.

In order to reinforce the strong bilateral ties and provide a renewed impetus to seek agreement on difficult issues, the European Commission suggested launching a strategic partnership with Brazil at the first EU-Brazil Summit in Lisbon on 4<sup>th</sup> July 2007. This Commission proposal identifies a number of areas and sectors in which the EU has a major interest in strengthening cooperation with Brazil and which could be mutually beneficial for both parties.

The content of the strategic partnership with Brazil reflects the EU's main foreign policy objectives, namely the strengthening of multilateralism, the promotion of human rights and close cooperation on global challenges such as

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<sup>1</sup> The author is very grateful to Alexandra Fattal for the English text revision and her helpful comments.

poverty, energy, climate change and international security. Equally, it represents a clear change in EU strategy for dealing with Mercosur, since the Europeans have always favoured a multilateral, bloc-to-bloc approach over a bilateral route in reaching agreements with Latin America and Caribbean countries. What were the reasons for such a change?

Two key arguments can explain the necessity of this new approach. The first concerns the current impasse in the Doha negotiations. In recent years Brazil has assumed a leading role on behalf of developing countries in the WTO through the G20 group. This special partnership could ease tensions between Europe and Brazil over sensitive matters like the reduction of EU agricultural subsidies and greater access to Brazilian markets for EU industrial goods and services. In that sense, it could renew efforts to reach an agreement and also revive trade talks between the EU and Mercosur - which are currently blocked because of the conflict on the Doha Round.

The second reason is related to European concerns over the destabilizing impact of populist regimes throughout South America. Considering the effect of an eventual accession of Venezuela to Mercosur, the proposed strategic partnership should help Brazil to exercise positive leadership regionally and safeguard democracy as a condition for the development of the integration process.

The current paper aims to discuss the prospects of success of the strategic partnership between the EU and Brazil. It begins with a general overview of the bilateral relations, presenting a brief historical background and outlining its main features.

Secondly, the paper analyzes the EU's strategic partnership with Brazil, examining the motivations behind the initiative, and outlines the central issues of the European Commission's Communication "Towards an EU-Brazil Strategic Partnership".

The subsequent section inquires into the chances for success of the bilateral strategic partnership. Its impact not only on the Mercosur integration process but also on EU-Mercosur relations will be investigated. The launch of the EU-Brazil strategic partnership has caused discomfort among Mercosur members, who fear the establishment of political and commercial agreements on a bilateral basis, without their involvement.

Finally, the paper explores the effectiveness of the strategic partnership instrument in achieving the EU's foreign policy goals. For this purpose, the main features and achievements of this mechanism will be taken into consideration. The conclusion will offer a summary of the main points raised in the paper.

## II. The European Union's relations with Brazil

Brazil has had diplomatic relations with the EU since 1960, but bilateral political dialogue was only consolidated from the late 1980s with the redemocratization of Brazil and the European Economic Community's new political orientation towards Latin America.<sup>2</sup>

After the creation of Mercosur in 1991 and the signing of the European Community-Brazil Framework Cooperation Agreement in 1992<sup>3</sup>, bilateral relations entered a new stage of development, which included the conclusion of the EU-Mercosur Interregional Framework Cooperation Agreement in 1995. The long term objective of this significant compromise was the preparation of an Interregional Association Agreement between the EU and Mercosur.

In the political field, Brazil and the EU are engaged in multilateral arrangements such as the United Nations (UN), the Rio Group and the EU - Latin America and Caribbean Summit process. In terms of economic relations, the EU is Brazil's largest trade partner<sup>4</sup>, and of all of BRIC Brazil has attracted the most EU foreign direct investment<sup>5</sup>. Moreover, Brazil has been one of the main beneficiaries of the European Community's (EC) international cooperation<sup>6</sup>.

Relations with the EU have always been high on Brazil's foreign policy agenda. Under Fernando Henrique Cardoso's administration (1995-2002) there was a strategic interest in keeping the Free Trade Area of the Americas (FTAA) negotiations in parallel with the talks with the EU. The two were not mutually-exclusive. The EU was recognized as the most important partner for Mercosur, but at the same time the Brazilian government adopted a realistic attitude towards the open market possibilities and criticized European agricultural protectionism<sup>7</sup>.

However, relations with the EU seem to have been relegated to second place under President Lula's government since 2003. One of his top foreign policy priorities is to forge a special relationship with emerging powers,

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<sup>2</sup> See HOFFMANN, Andrea Ribeiro, *Foreign Policy of the European Union towards Latin American Southern Cone States (1980-2000)*, Tübingen, Peter Lang, 2003, p. 14.

<sup>3</sup> This agreement provides the institutional setting for the political relations between both parties and a framework for cooperation in a large number of fields, including trade. The institutional mechanism consists of a Joint Committee and sub-committees for science and technology and for industrial cooperation.

<sup>4</sup> Trade with the EU now represents more than 22% of Brazil's total foreign trade. See Figures I and II at the end of this paper.

<sup>5</sup> For the EU's contribution to foreign direct investments in Brazil see MADURO, Lucia, "Evolução das relações econômicas Brasil - União Européia", in: HOFMEISTER, Wilhelm (Ed.), *Anuário Brasil-Europa 2006*, Rio de Janeiro, Konrad-Adenauer-Stiftung, 2007, pp. 121-122.

<sup>6</sup> The "Brazil Country Strategy Paper 2007-2013", adopted on 14<sup>th</sup> May 2007, budgeted with € 61 million, sets out the framework for the EC's cooperation priorities up to 2013, of which the two most important are: a) the enhancement of bilateral relations through defined actions - initiatives in the framework of EC-Brazil sectoral dialogues, higher education programmes and the establishment of a European Studies Institute; and b) the promotion of the environmental dimension of sustainable development.

<sup>7</sup> See AYLLÓN, Bruno, "A política externa do Brasil e suas relações com a União Européia: uma avaliação do primeiro governo Lula (2002-2006)", in: HOFMEISTER, *op. cit.*, pp. 81-82.

including India, China and South Africa. South-South Cooperation has thus been privileged over deepening Brazil's ties with the EU<sup>8</sup>. As a consequence, the EU's participation in Brazil's foreign trade has been reduced compared to the performance of the China and Latin American Integration Association (ALADI) countries which are assuming important positions among Brazilian exports and imports<sup>9</sup>.

In fact, Brazilian foreign policy towards the EU under Lula's administration can be distinguished by its harshness in comparison with the traditional positions undertaken by preceding governments regarding world trade talks. This new attitude has resulted in regular trade conflicts between Brazil and the EU which have been brought before the WTO, and Brazil's leading role within the G20.

A tendency towards stagnation in bilateral relations was witnessed at the fourth European Union - Latin America and the Caribbean Summit held in Viena in May 2006, at which both sides failed to make concrete proposals for greater cooperation<sup>10</sup>. Indeed expectations for the summit were not high. Both regions had their own problems. Latin America and the Caribbean had never been among the EU's foreign policy priorities. Besides, the Europeans at the time were making every effort to overcome the recent crisis over the rejection of the Constitutional Treaty. Brazil on the other hand, had to deal with political fragmentation in South America, where a dispute between opposing visions for regional integration was taking place. Furthermore, President Lula's government was then seriously threatened by major corruption scandals, in which prominent politicians of Lula's Workers Party (PT) and members of the government were considered to be directly involved.

In summary, until recently EU-Brazil relations have not been sufficiently exploited, and were carried out mainly through EU-Mercosur dialogue<sup>11</sup>, which is now at a standstill because of the deadlock in the Doha Round. A new impulse was however given to the bilateral relationship in July 2007 when the first EU-Brazil Summit took place in Lisbon, under the Portuguese Presidency of the EU, during which the launch of the strategic partnership between Brazil and the EU was formalised. In this way, the EU raised Brazil to the ranks of its strategic partners to cope more effectively with global challenges and strengthen bilateral cooperation. The next section will analyse the content and the logic behind this strategy.

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<sup>8</sup> AYLLÓN, *op. cit.*, pp. 87-88.

<sup>9</sup> See Figures I and II.

<sup>10</sup> Among the few significant results of the Viena Summit are the beginning of negotiations on an Association Agreement between Central America and the EU, and the preparations for an agreement of the same kind between the Andean Community (CAN) and the EU. With Venezuela's withdrawal from the CAN and the possibility that Bolivia will follow suit, the negotiations would be restricted to Colombia, Peru and Ecuador, the same countries willing to sign a free trade agreement with the USA.

<sup>11</sup> As stated in the introduction to the Commission Communication "Towards an EU-Brazil Strategic Partnership" adopted on 30<sup>th</sup> May 2007. The document is available at: [http://ec.europa.eu/external\\_relations/brazil/docs/index.htm](http://ec.europa.eu/external_relations/brazil/docs/index.htm).

### III. The EU's strategic partnership with Brazil

#### 1. The motivations behind the new approach

With its solid supranational institutions the EU is aware of the advantages of negotiating as a bloc. Indeed, in its relations with the rest of the world, the EU has always preferred such a strategy. By reaching agreements with Latin America and Caribbean countries, for example, the bloc has favoured dealing with the Mercosur, the CAN and the Central American Integration System (SICA) over bilateral negotiations with the individual countries of the region<sup>12</sup>.

Nevertheless, the EU seems to have changed this pattern, in deciding to formalize a strategic partnership with Brazil. This paper will argue that the reasons for this new approach are based on a *de facto* recognition of Brazil's emerging economic and political role in the world, and on the pursuit of important European interests relating to the Doha round, South American integration, and particularly Mercosur.

The performance of the Brazilian agricultural sector has placed the country among the world's most competitive exports of agro-industrial products. Brazil therefore has emphasized over recent years that agriculture must be at the centre of the Doha Round. Within this context the country has recently emerged as a key interlocutor for the developing world in the WTO. In 2003, at the V Ministerial Conference of the WTO in Cancun, the G20 was established, as an initiative of the Brazilian government. Its main objective is to assure an outcome in the WTO agricultural negotiations which reflects the interests of the developing countries.

The creation of the G20 demonstrates how important the South-South alliances are to President Lula's foreign policy. Another example of a coalition between emerging countries, in which Brazil participates is the IBSA Dialogue Forum. This was created in 2003 and consists of a trilateral, developmental initiative between India, Brazil and South Africa to promote South-South cooperation and exchange. After the establishment of the IBSA, its members concluded numerous cooperation agreements and the trade volume between them has tripled.

The pursuit of a new interregional multilateralism in the South has strengthened Brazil's position on the international stage. Moreover, as a result it has increased the EU's interest in intensifying cooperation with Brazil. Within the framework of the bilateral strategic partnership, the EU aims to take advantage of the country's influential role in such fora, with the purpose of reaching an EU-Mercosur agreement<sup>13</sup>.

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<sup>12</sup> Among the economies of Latin America the EU has established bilateral association agreements only with Chile and Mexico, in 2002 and 1997 respectively.

<sup>13</sup> Under section 1 the Commission Communication provides that "Brazil is central to the success of the EU-Mercosur negotiations, an EU priority strategic objective, which have not come to a conclusion due to lack of progress in the trade chapter thus preventing so far the

A second of the EU's strategic interests identified in the Commission Proposal is the regional integration process in South America. Recently the EU has showed concern about the destabilizing impact of populist regimes throughout the region. Populist governments have risen to power in Bolivia, Ecuador and Venezuela. All stand for a "refoundational populism", whose political project is partly nationalist, partly left-wing. This kind of populism however, is especially characterized by opposition to representative democracy. In this sense, instead of imposing his political plan immediately on coming to power, the populist leader seeks to gradually gain control of all state institutions<sup>14</sup>, removing the former political elite from the power<sup>15</sup>. With regard to external relations, "refoundational populism" stands against neoliberal economic policies, free trade agreements and transnational corporations.

The rise of populist regimes in South America has increased the divide between the region and the EU. The impact of populism on relations between the two regions has both economic and political dimensions. In relation to the negotiation of commercial agreements the effects can be illustrated for example, by President Evo Morales's announcement that Bolivia will not accept the conclusion of a free trade agreement between the CAN and the EU. Moreover, the accession of Venezuela to Mercosur might further complicate negotiations on an EU-Mercosur association agreement.

In addition, many European enterprises have been impaired by the bills for the nationalisation of the gas industry in Bolivia and also by the revision of contracts with transnational oil companies in Venezuela. In terms of political dialogue, the negative implications were felt at the last meeting between the EU and the Rio Group, in Santo Domingo in April 2007, which at the time was considered to have been a failure reflecting the growing tensions between both regions<sup>16</sup>.

This populism has created even greater obstacles to the already weak South American integration process. At present it suffers from a dispute between opposite visions for regional integration. On the one hand, Venezuela defends the "Bolivarian Alternative for the Americas" based on its counter-hegemonic project, and on the other, Brazil presents an approach based on neofuncionalism, supporting the successive integration in different sectors, such as infrastructure, trade and investments.

In Europe there is much concern about the current political turmoil in South America, but so far no significant response has been expressed towards

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establishment of a wider strategic association between the EU and Mercosur. Positive leadership of Brazil could move forward Mercosur negotiations."

<sup>14</sup> For instance, through the draft of a new refoundational Constitution that strengthens the executive branch, or through the reform and control of the electoral and judicial systems or the approval of new laws to control the press.

<sup>15</sup> For a detailed analysis of "Latin Populism" and the nuances between the models of "refoundational populism" in South America see GRATIUS, Susanne, *The "Third wave of Populism" in Latin America*, Working Paper n°45, FRIDE, Madrid, 2007.

<sup>16</sup> For more on the impact of South American populism on EU - Latin American relations see GRATIUS, Susanne, *La Unión Europea y el populismo sudamericano*, Comentario, FRIDE, Madrid, 2007, pp. 4-6.

the new populisms in the region, which would indicate that the EU considers the phenomenon as a South American variant of democracy, accepting the rise of populist regimes as democratically elected governments<sup>17</sup>. However, the launch of the strategic partnership with Brazil may be the first time that the EU has acted with consistency. Greater cooperation with the EU should help Brazil in exercising proactive leadership regionally, acting as a counterweight to radical populism.

Thus, the message sent by the EU with the launch of this strategic partnership is that the bloc recognizes Brazil's importance as a key player on both the regional and multilateral stage, and seeks to make the most of this new special relationship in order to protect its interests in South America.

## **2. The content of the strategic partnership**

On the 30<sup>th</sup> May 2007 the communication from the European Commission to the Council and the European Parliament entitled "Towards an EU-Brazil Strategic Partnership" was adopted. This document presents a wide range of activities and sectors at the global, regional and bilateral levels where the Commission considers that closer cooperation between the EU and Brazil could be mutually beneficial. Once approved by Brazil at the Lisbon Summit, the Communication became the basis for the bilateral strategic partnership. The priority areas of action of this joint agenda will be outlined below.

### *Strengthening multilateralism*

Brazil and the EU concur that the best way to address today's global challenges is through an effective multilateral framework with a strong UN at its centre. In this sense both parties underline the importance of reforming the main UN bodies. In order to achieve closer cooperation in all international fora, periodical consultations ahead of relevant UN meetings are proposed. The Communication lists three important issues, on which both sides could ensure mutual support and develop common strategies.

The first involves peacekeeping operations. Brazil's prominent role in the UN Stabilization Mission in Haiti (MINUSTAH) is welcomed as a more proactive Brazilian position and encourages the EU to seek to coordinate its efforts with Brazil not only in Haiti but also in peace and stabilization operations in general. The document stresses the importance of joint work between the partners under the structure of the UN Peacebuilding Commission.

Disarmament and arms control is the second subject, on which both sides could enhance their relations, supporting the development of the global non-proliferation regime. The third issue is commitment to a stronger multilateral trade system. In this respect, the document asserts that both Brazil and the EU have a special responsibility to bring the ongoing Doha Round negotiations to conclusion. In addition, on the reform of the international financial system,

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<sup>17</sup> GRATIUS, *La Unión Europea y el populismo sudamericano*, p. 3.

Brazil could develop common positions with the EU in the G20 Finance Ministers Forum, particularly given Brazil's G20 Presidency in 2008.

*Human rights, democracy and governance*

Aware of the common values and interests shared by the EU and Brazil regarding the promotion of human rights, democracy, the rule of law and good governance, the Communication suggests closer cooperation between the two sides to achieve greater consensus on resolutions or co-sponsor initiatives on specific countries and issues in UN bodies.

*The Millennium Development Goals and regional and social development*

Recognizing the eradication of poverty as one of the greatest global challenges, both sides reaffirm their commitment to continue working together in promoting and implementing the Millennium Development Goals. In view of Brazil's active work in fighting poverty and inequality on the multilateral platform<sup>18</sup>, the Commission expresses its interest in intensifying cooperation with Brazil in the field of development assistance, especially in relation to triangular cooperation with the Community of Portuguese-Speaking Countries on development joint activities.

On social, employment and regional policy matters, the recently created EU-Brazil dialogue on social and employment issues provides a forum for exchanging best practices and promoting discussion over social protection and inclusion policies. Equally, the dialogue on regional policy will allow Brazil to benefit from the EU's experience in reducing regional disparities and to exchange ideas in implementing regional policy. The Communication also supports the exchange of experiences between Brazil and other South American countries, which could offer innovative solutions to the challenges of inequality, poverty, social exclusion and reduction of regional divides.

*Environmental issues*

Within the scope of environmental protection, the EU is interested in reinforcing dialogue with Brazil on topics such as climate change, water management, the decline of biodiversity, deforestation and mercury pollution. In this context, both parties should be partners in advancing greater international discussions over deforestation and climate change with a view to reaching a post-2012 climate agreement. Closer cooperation should also bolster the implementation of the UN Convention on Biological Diversity and the achievement of the World Summit on Sustainable Development Biodiversity 2010 target.

*Energy*

Energy cooperation is an area full of prospects for both sides. Brazil occupies a prominent position in the production, distribution and consumption of biofuels, and the 2007 Action Plan on an Energy Policy for Europe recently

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<sup>18</sup> For example, the UN's "Action against Hunger and Poverty", launched in 2004 on the initiative of President Lula, together with Chile, France and the UN.

confirmed the EU's commitment to increase the use of renewable energies and biofuels by 2020. The launch of the EC-Brazil Energy Policy Dialogue in 2007 could provide a good basis for promoting policies to energy security, efficiency and sustainability.

*Stability and prosperity in Latin America*

Given Brazil's important role in promoting stability in Latin America as well as its active engagement in South American integration, the EU aims to work with Brazil to deepen EU - Latin America - Caribbean cooperation, notably regarding social cohesion promotion.

*Cooperation on regional integration with Mercosur*

Both sides consider the importance and influence of Brazil on the whole of South America's economic stability and economic integration as an essential factor that can constructively contribute towards a successful conclusion of a EU-Mercosur agreement. Brazil and the EU assert their willingness to explore how to maximise cooperation and exchange of experiences on questions of regional integration.

*Trade and economic relations*

Noting that Brazil is the most important market for the EU in Latin America and its significant weight in the world economy, the Commission proposes to address trade and investment issues of specific bilateral relevance that complement EU-Mercosur negotiations and, to include regular macro-economic dialogue in the framework of the strategic partnership. Furthermore, it seeks to improve cooperation in sectors of mutual interest such as information society, air transport, maritime transport, governance, science and technology and satellite navigation.

Both parties encourage the European Investment Bank to continue its support of Brazil's sustainable development projects. In this regard, they welcome the cooperation between the European Investment Bank and the Brazilian National Economic and Social Development Bank (BNDES).

*Justice, freedom and security*

In this field, Brazil and the EU aim to work together, including in international fora, to combat organised crime and corruption, by promoting cooperation in criminal matters and in regional multidisciplinary law enforcement. Both parties also stress the importance of joint policies and programmes in tackling the global drugs problem and illegal immigration.

*Bringing people together*

The EU and Brazil emphasise the significance of the mutual understanding between their societies, suggesting actions to stimulate civil society contacts. They agree to expand further bilateral cooperation in higher education by intensifying university exchanges and a cultural dialogue, as well as by enhancing the potential for business cooperation. In particular, they

support cooperation between the European Economic and Social Committee and the Brazilian Council for Economic and Social Development.

#### **IV. Prospects of effectiveness of the EU-Brazil strategic partnership**

As presented above the EU-Brazil strategic partnership involves cooperation in a wide range of areas and activities on different levels of action. It is an ambitious project. Whether or not it will prove successful depends primarily on the high-level political commitment of both parties. The EU is already experienced in conducting strategic partnerships with different countries and regions around the world. Nonetheless, each partner presents different challenges. In the case of Brazil, the main difficulties involve the political instability in South America and to some extent Brazil's foreign policy orientation towards its relations with the EU.

Before discussing the possible effects of the EU-Brazil strategic partnership on the Mercosur integration process as well as on the future of the EU-Mercosur relations, it seems appropriate to underline the most prominent areas for cooperation between Brazil and the EU. Energy, migration and efficient multilateralism are the domains with the potential to produce the most concrete results.

Energy cooperation is one area that should be highlighted. Brazil is widely recognized as the world's most important producer of fuels made from plants<sup>19</sup> and it has major potential worldwide for affordable biofuels. The careful exploitation of these resources could boost national growth and development<sup>20</sup>. Furthermore, biofuels can be deployed as strategic instruments of foreign policy. They offer Brazil the chance to increase its standing in the world economy and, to gain influence in the multilateral discussions about solutions to global challenges such as climate change and energy security<sup>21</sup>.

Additionally, the provision of biofuels could reinforce Brazil's political role in the subcontinent compared to others energy players like Bolivia and

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<sup>19</sup> Brazil and the United States are the largest producers of ethanol in the world. Whereas North American ethanol is produced from the maize, in Brazil the traditional sugar cane cultures provide biomass for the production of ethanol, and soy beans are used to make fuel oils. Brazil's sugar cane ethanol programme was launched in the 1970s and by the middle of the 1980s a third of Brazilian vehicles were using ethanol as fuel.

<sup>20</sup> For instance, the National Programme of Biodiesel Production and Use (*Programa Nacional de Produção e Uso do Biodiesel*), started in December 2004, aims to generate jobs and income in rural areas - especially in economically depressed regions in the Northeast of Brazil - reduce regional inequalities and thus contribute to fighting poverty.

<sup>21</sup> Motivated by the expansion of international trade in biofuels, Brazil has concluded several energy cooperation programmes, for example: the "International Biofuels Forum" with India, South Africa, China, the USA and the European Commission; the US-Brazil memorandum signed in March 2007 that pledges closer cooperation on researching energy production from alternative sources; and the "EC-Brazil Regular Energy Policy Dialogue", signed in July 2007, whose main objective is to facilitate the exchange of views between the two sides on issues related to energy security and sustainability. Brazil and the EC are also seeking to develop bilateral cooperation on biofuels and other renewable energy sources, low carbon energy technologies and the improvement of energy efficiency.

Venezuela<sup>22</sup>. The exploitation of renewable energy sources is particularly important in South America, given the current regional shortage of natural gas<sup>23</sup>.

Similarly, the EU has a major interest in the use of alternative resources. The bloc has become too dependent on foreign sources of energy, much of which comes from unstable regions<sup>24</sup>. Moreover, the increasing scarcity of fossil fuels and their environmental impact has given rise to a political willingness to seek greater development of renewable resources<sup>25</sup>. Therefore, cooperation with Brazil in searching for new energy supplies and in developing new technologies would allow for a reduction in the EU's dependence on foreign energy imports, particularly oil and gas, and at the same time contribute to reaching its energy environmental policy goals.

However, the implementation of such cooperation may be hampered by conflicts over, for example, food security and environmental protection. One major criticism often levelled against large-scale biofuel production is that it competes with food crops in several ways (agricultural, rural investments, skilled labour, and infrastructure) and consequently causes food shortages and prices increases. In this respect, developing countries are worst affected.

The environmental benefits of biofuels are currently subject to heated debates. The growing demand for biofuels is criticised on the basis that it leads to large-scale forest conversion for energy crops, once these are more likely to be established in carbon-rich and biodiverse ecosystems like the tropical forest. This explains the major concern that the rapid expansion of plant fuels would

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<sup>22</sup> In addition to biofuels, the recent discovery of the biggest deep-water oil field off the Brazilian southeastern coast has given the country new influence over regional energy players. Analysts expect that the new field, "Tupi", will allow Brazil to take a tougher stand in its negotiations with Bolivia over new gas contracts and investment following the nationalization of Bolivian energy reserves. See NEW YORK TIMES, *Brazil discovers an oil field can be a political tool*, 19.11.2007, <http://www.nytimes.com>.

<sup>23</sup> At present, many countries in the region are facing energy crises. Energy security is a real concern in Chile, as its primary provider, Argentina – a country facing its own energy crisis – has consistently cut off the flow of gas for the past two winters. Following its nationalization of oil and gas Bolivia has been unable to supply its neighbor's growing energy demand. At the end of last February, Bolivian President Evo Morales announced that Bolivia could not guarantee energy supplies to regional customers during periods of peak demand. As a result, Morales has proposed to Brazil and Argentina a redistribution of Bolivia's gas exports to their markets (the gas supply to Brazil which is currently of 30 million m<sup>3</sup> a day would be reduced to 27 million m<sup>3</sup>), which has caused disagreements and accusations between the authorities of the three countries. See O GLOBO, *Bolivia vai propor redistribuição de cotas de gás para Brazil and Argentina*, 23.02.2008, <http://oglobo.globo.com>.

<sup>24</sup> European dependence on coal imports is much lower than oil and gas. The largest providers of the EU's coal imports are distant countries such as the United States, Australia, South Africa and Colombia. Likewise oil imports come from overseas regions, such as the Middle East. On the other hand, the principal sources of natural gas come from neighbouring countries, like Russia, Norway's sector of the North Sea and North Africa. Recently, political concerns have largely focused on Russia, the EU's primary gas supplier, since this country has begun to use its natural resources as a foreign policy tool.

<sup>25</sup> In order to reduce oil dependency and greenhouse gas emissions, the 27 EU Heads of State agreed at the Spring Council of March 2007, that by 2020 use of biofuels should have increased by 10% and renewable energy should account for 20% of overall EU energy consumption.

further destroy ecologically sensitive areas like the Amazonian rainforest<sup>26</sup>. Based on the argument that biomass is not sustainably produced in every country, the EU has refused the Brazilian submission, in the framework of the Doha Round, to include ethanol on the WTO's list of environmental goods and services to be eligible for accelerated liberalization<sup>27</sup>.

Despite all the difficulties outlined above, the EU and Brazil have already expressed their belief that cooperation in the energy sector can bring mutual advantages. The "EC-Brazil Regular Energy Policy Dialogue" can contribute to the development of common standards and codes that are fundamental to Brazilian ethanol exports to the EU, insofar they would guarantee that production is sustainable and environmentally friendly.

Migration is another area on which Brazilian and EU interests converge. Although it is a very sensitive subject in Europe, the demographic issue will pressure political authorities to act. Immigrant populations with their bottom-heavy age pyramids can help support Europe's aging populations, assuring its international competitiveness in increasingly disputed markets.

Furthermore, both sides are committed to fighting illegal immigration. A serious issue connected to this is the international trafficking of women for sexual exploitation. 70% of the women trafficked for prostitution to Europe come from Latin America. On this matter agreements between the EU and Brazil should be concluded, in order to prevent clandestine immigration and the exploitation of irregular immigrants<sup>28</sup>.

Finally, an area that has great potential to be further exploited is collaboration on the promotion of efficient multilateralism. In recent years Brazil has intensified its presence at the international stage, getting involved in several causes, such as its active participation in UN peacekeeping missions and the country's bid for a permanent seat on the UN Security Council<sup>29</sup>.

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<sup>26</sup> Under pressure from ecologists' the EU has considered banning the imports of ethanol due to unreliability over environmental issues. The EU Energy Committee recently passed a law, which, if approved, will forbid all EU member states from importing ethanol whose production demands excessive use of natural resources or drives to forest devastation. According to the draft law, the target to fuel 10% of vehicles in the EU by biofuels by 2020 could even be postponed. See INTERNATIONAL HERALD TRIBUNE, *EU considers banning the import of certain fuel crops*, 14.01.2008, <http://www.ihf.com>.

<sup>27</sup> Under the Doha Development Agenda, WTO members are to negotiate the reduction or complete elimination of tariff and non-tariff barriers to environmental goods and services, meaning those items which are considered to help prevent environmental damage. Whilst Brazil suggests that biofuels are an environmental good, several countries, including Canada and Cuba, raise environmental concerns related to biofuels production. See MILDNER, Stormy/ZILLA, Claudia, *Brasilien und Biokraftstoffe: Chancen und Stolpersteine für eine engere Zusammenarbeit mit der EU und Deutschland*, SWP-Aktuell 60, Berlin, 2007, p. 4.

<sup>28</sup> On this matter see OROPEZA, José Angél, *Panorama das migrações na América Latina e no Caribe e vínculos com a Europa: desafios e políticas*, Série Europa - América Latina 22, Konrad-Adenauer-Stiftung, Rio de Janeiro, 2006, pp. 61-73.

<sup>29</sup> For an analysis on Brazil's engagement with UN matters and with international security policy see SCHIRM, Stefan A., "Führungsindikatoren und Erklärungsvariablen für die neue internationale Rolle Brasiliens", in: RILL, Bernd, *Brasilien. Großmacht in Lateinamerika*, München, Hans-Seidel-Stiftung, 2007, pp. 36-39.

The EU should react more assertively to this international rise of Brazil, placing it on a high-priority diplomatic footing. The launch of the bilateral strategic partnership was certainly a first step, but it must prove to be more than a mere recognition of Brazil's position and move the bilateral relations forward<sup>30</sup>. For its part, Brazil should claim the EU's commitment to regional issues that affect their relationship, like conflict prevention and civil crisis management<sup>31</sup>, as well as the fight against poverty and illicit drugs<sup>32</sup>. To summarise, with the present partnership both sides have the chance to offer a real contribution to promote effective multilateralism, by taking each other seriously as global partners.

## 1. The impact on the Mercosur integration process

Brazil's engagement with Mercosur can be described as ambivalent<sup>33</sup>. Under the actual government, the integration project plays a prominent political-strategic role in Brazil's foreign policy. Yet, the country has been systematically putting the brakes on the bloc's institutional development towards a supranational structure. Mercosur's institutions are built on a strictly intergovernmental basis and do not dispose of any influence on the decision making process of the Market. This lack of institutionalization is generally explained by the permanent Brazilian refusal to forgoe its sovereignty in favour of *de facto* strong common institutions<sup>34</sup>.

As a result of this absence of political commitment on the part of its most powerful member, Mercosur has been afflicted by "dangerous" stagnation. Despite its market strength and its "democratic clause" that made Mercosur a respected international player, the bloc is now in a deep internal crisis. The current situation can be partly explained by the nature of Mercosur. It is an integration process where the asymmetries between the member states are

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<sup>30</sup> A concrete initiative in this direction would be the EU's inclusion in the IBSA Dialogue Forum. See MAIHOLD, Günther, *Brasiliens Aufstieg in die 1.Liga der EU-Außenbeziehungen: Potential und Grenzen der neuen strategischen Partnerschaft*, SWP-Aktuell 40, Berlin, 2007, p. 4.

<sup>31</sup> This field in particular, in which the EU has much experience, offers manifold possibilities of cooperation, for instance, in conflict resolution in Latin America. In concrete terms, Brazil could be responsible for conducting the mediation, due to its geographical proximity and its cultural affinity with the countries of the region, while the EU would contribute by financing social and economic development projects in the conflict area.

<sup>32</sup> Brazil could also call on EU support for its postulation for a permanent seat on the UN Security Council. The issue continues to be one of the key goals of President Lula's foreign policy, as stated in his administration programme for the period 2007-2010. See ZILLA, Claudia, "Brasilien und der Mercosur unter der Regierung Lula", in: RILL, *op. cit.*, p. 70.

<sup>33</sup> *Ibid.*, p. 61.

<sup>34</sup> See SCHIRM, *op. cit.*, p. 41.

profound<sup>35</sup> and negotiations are concentrated on the relationship between its two main partners: Brazil and Argentina<sup>36</sup>.

Mercosur looks more fragmented than ever. Venezuela's accession process<sup>37</sup> and the recent Bolivian request for entry<sup>38</sup> have transformed it into an arena of dispute between opposing integration strategies. The defence of the "Bolivarian Alternative for the Americas" (ALBA) by Hugo Chávez and supported by Bolivian President Morales, as an integrated regional anti-imperialist bloc, in substitution of an "old Mercosur", has served only to increase the internal fractures of Mercosur, and transform it into a highly politicized integration process.

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<sup>35</sup> Brazil represents 71% of the total Mercosur population, 70% of its GDP and 58% of the bloc's exports (including Venezuela). All Mercosur full members' economies are wholly dependant on their access to the Brazilian market, even Argentina, which faces the problem of an uncompetitive industrial sector. For more statistical information see ZILLA, *op. cit.*, p. 64. A recent response to the problem of asymmetry between Mercosur member states, even though limited, was the establishment of the Mercosur Structural Convergence Fund (FOCEN), a fund of US\$ 100 million, of which Brazil is the principal financier, and the objective of which is to aid the development of the lesser economies in the bloc (Paraguay and Uruguay).

<sup>36</sup> These features facilitate the bloc's biggest members to take unilateral decisions, like the Brazilian currency devaluation in 1999 and the periodic Argentinian violations of the TEC (Common External Tariff). As a consequence, for the smaller members, Paraguay and Uruguay, the bloc is becoming less and less attractive, given the recurrent protectionist attitudes of their two powerful partners. In fact, Uruguay has been considering starting negotiations for a trade agreement with the USA. However, such an intention becomes problematic under Mercosur integration rules, according to which economic relations with outside partners must be decided on the basis of consensus by all member states.

<sup>37</sup> Venezuela's accession is a classic example of "presidential diplomacy", on which the Mercosur integration process has fundamentally rested. This dynamic is understood as the recurrent resort to direct negotiations between the Mercosur national presidents, without any previous legal basis and the consultation of other organs or actors involved, every time a crucial decision has to be made. In Venezuela's case, the country had already been announced as the new Mercosur member, without even negotiating the conditions for its accession. In fact, it is important to bear in mind that Venezuela is not yet a member of Mercosur. Its full membership is contingent upon ratification by the national parliaments of the present members of the bloc as well as by the Venezuelan parliament. So far, the latter, the Argentinian and Uruguayan parliaments have approved the Protocol for Venezuela's accession to Mercosur. Thus, this country will just have the right to vote, after the Protocol has been ratified by Brazil and Paraguay. Venezuela has a four year period (estimated until the end of 2010) to adapt itself to the TEC and has now only the right to participate in the bloc organs' meetings as well as in the international negotiations with outside partners in which Mercosur takes part. On "presidential diplomacy" in Mercosur see MALAMUD, Andres, "Presidentialism and Mercosur: a hidden cause for a successful experience", in: LAURSEN, Finn (Ed.), *Comparative Regional Integration: theoretical perspectives*, London, Ashgate, 2003, pp. 53-73 and MALAMUD, Andres, "Presidential Diplomacy and the Institutional Underpinnings of MERCOSUR: an empirical examination", *Latin American Research Review*, v. 40, n. 1, 2005, pp. 138-164.

<sup>38</sup> In December 2006, President Evo Morales officially requested entry into Mercosur as a full member. Soon after, at the Mercosur Summit held in Rio de Janeiro in January 2007, the issue had already raised conflicts between Brazil and Argentina. The latter refused the Brazilian strategy to facilitate Bolivia's accession, by exempting it from complying with the TEC. See O ESTADO DE SÃO PAULO, *Bolívia no Mercosul opõe Brasil e Argentina*, 18.01.2007, <http://www.estado.com.br>.

There are no effective proposals to deal with the current crisis. Mercosur nations prefer to engage themselves in launching redundant regional initiatives, such as the South American Community of Nations (CASA, recently renamed UNASUR, for Union of South American Nations)<sup>39</sup> and the Bank of the South<sup>40</sup>. Instead of fostering Mercosur's integration process through the improvement of its already existing institutions, new organs and projects are created, in order to keep the South American integration alive. The result is the lack of common institutions capable of managing trade and economic conflicts between the member countries, like the "papeleras" conflict between Argentina and Uruguay<sup>41, 42</sup>

It has been argued that Brazil's new strategic partnership with the EU could contribute in heightening tensions between Mercosur member states. President Hugo Chávez might view such a special relationship, which reinforces Brazil's position as a regional power, as a threat to his political ambitions in the region. Moreover, the other Mercosur countries may question the EU's commitment to promote Mercosur and whether Brazil itself is still interested in moving the bloc forward.

Whether or not the EU-Brazil strategic partnership will benefit Mercosur's integration process depends largely on two factors. Firstly the internal dynamics of Mercosur are important, particularly the impact of populist regimes within the bloc. The Brazilian government perceives Venezuela's accession to Mercosur to be an advantage in terms of energy integration, but the political impact of Hugo Chávez's inclusion in the Market should not be underestimated. Still, the possibility of Mercosur nations' support for the Venezuelan project of an anti-imperialist bloc, aligned with highly controversial regimes like Iran and North Korea, in open confrontation not only with the USA but with the EU as well, does not seem a realistic one. Moreover, Mercosur members appear to agree that the Bolivarian Alternative for the

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<sup>39</sup> It consists of another regional integration project, pushed mainly by Brazil, which aims to unite Mercosur and CAN, taking the EU as a model.

<sup>40</sup> Project first proposed by Venezuelan President Hugo Chávez for a monetary fund to lend money to Latin American nations for the development of social programmes and infrastructure. Regional support for the project has been hesitant, once the Bank of the South would overlap institutions already dedicated to financing the region, like the Brazilian BNDES, the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF).

<sup>41</sup> See ZILLA, *op. cit.*, p. 69.

<sup>42</sup> Another recent inopportune initiative is the inauguration of the Mercosur Parliament (Parlasur), which unfortunately has not emerged as a natural consequence of the process of integration. In contrast to the EU, which first consolidated itself as an economic bloc, and then later went on to create political institutions, Mercosur has established a regional parliament before even having achieved economic integration. The Mercosur Parliament was inaugurated in December 2006. It initially consists of 18 congressional representatives from each member country. In a second phase, due to begin in 2010, the representatives will be directly elected by secret ballot. The Parlasur members can deliver non-binding resolutions and order studies, but in no case will their decisions take priority over domestic law. A real contribution from the Parlasur would be the establishment of mechanisms to facilitate the incorporation of Mercosur norms into the laws of member states, given the incapacity of the latter to internalize the growing number of common rules and to comply with them.

Americas' economic model is not the best way to ensure economic growth and sustainable development for the region<sup>43</sup>.

Secondly, Brazilian foreign policy plays a central role in this context. In relation to Mercosur, Brazilian diplomacy ought to guarantee other member states that the EU-Brazil strategic partnership is compatible with Brazil's commitment to regional integration. Indeed it should advocate its privileged relationship with the EU on the grounds that if it is beneficial for Brazil, it will benefit Mercosur's development.

## 2. The future of EU-Mercosur relations

Since its creation Mercosur has enjoyed a special relationship with the EU. Mercosur is seen as an emerging market and is regarded as a significant regional integration project, with special appeal to the EU, which perceives it as a receptive region to which it can "export" its integration model.

In November 1999 the two blocs began negotiations aiming to reach an association agreement by 2005, but progress has been slow due to disagreements mainly over import restrictions on agricultural goods. They have only reached the stage of discussing tariffs, the most sensitive part of any trade negotiation<sup>44</sup>. Moreover, negotiating as a bloc has often proved challenging for Mercosur given the divergent interests, as well as weakness of its own internal agenda<sup>45</sup>. These realities have at times gotten in the way of negotiations with third parties.

Regarding the impact of the EU-Brazil strategic partnership on the future of the EU-Mercosur relations, this new bilateral route may ultimately be perceived as a substitute for the multilateral, bloc-to-bloc approach, which the EU has always favoured when negotiating with Latin America. Given the persistent difficulties of negotiating as a bloc with Mercosur and the possibility of accession of countries like Venezuela and Bolivia, the EU could decide to give up negotiations with Mercosur and concentrate its diplomacy on reaching a bilateral association agreement with the bloc's most powerful member.

However, this scenario would directly contradict the objectives of the EU-Brazil strategic partnership, which expressly states that one of its central priorities is to reach an EU-Mercosur association agreement. It would also contradict the EU's foreign policy itself, which is wholly committed to the

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<sup>43</sup> See VALLADÃO, Alfredo, *The new Tordesillas line. The present great Latin American East-West divide*, OBREAL/EULARO Background Papers, Paris, 2007, pp. 3-4.

<sup>44</sup> The EU-Mercosur negotiations are linked to the Doha Development Agenda negotiations and in particular to the question of modalities for market access. The further development of EU-Mercosur talks depends therefore on the conclusion of an agreement on the multilateral market access elements. A draft agreement could not be reached before the WTO's deadline at the end of July 2007, due to the failure of the negotiations between the G-4 (USA, the EU, Brazil and India) in Potsdam last June. Such an agreement was necessary to conclude the round by early 2008, before the beginning of the US presidential election campaign.

<sup>45</sup> This can explain, for example, the inability of Mercosur member states to present a consistent offer to the EU in the framework of bilateral negotiations. This fact has often been identified as a major obstacle to the developments of the trade talks. See SCHIRM, *op. cit.*, p. 42.

promotion of regional integration processes in different parts of the world, through the establishment of multilateral agreements.

In fact, as stated in the Commission Communication and echoed by political authorities in Brazil and the EU, this special relationship aims to revive trade talks between the EU and Mercosur and not to abandon them. Both the EU and Mercosur have strong incentives to exploit their comparative advantages in each other's market and the leaders of both sides are aware that the prospects for an EU-Mercosur agreement ultimately depend on their political will to put their differences aside in the free trade talks.

Nevertheless, this is the point on which there continues to be echoes of contradiction in the Commission Communication. In that sense there is no coherence between the political authorities' declarations of good intentions during and after the Lisbon Summit on the one hand, and the persistent differences between the EU and Brazil in the Doha Development Round on the other. Both sides should therefore consider this partnership as the definitive chance to develop an honest dialogue on the relevant issues where positions differ, in order to quickly reach a mutually-beneficial interregional agreement.

## **V. The EU's strategic partnerships as instruments of its foreign policy**

In terms of the law of the EU's external relations, a "strategic partnership" can be defined as a geopolitical principle of action or a structuring method in EU external relations. It implies three basic characteristics: adherence by the partners to a minimum of common benchmarks, equal relations between the partners, and a dynamic process for the construction of a common future. In practice, it is developed over the course of annual summits and can take a number of legal forms. It can, for example, be the subject or the objective of a bilateral agreement, but similarly of orientation documents, or common declarations or action plans<sup>46</sup>.

In line with this definition, a strategic partnership introduces the idea of priority in the implementation of common actions for the two sides and works as an instrument of soft law within the context of EU foreign policy. Besides, it has proved to be a very flexible mechanism, by allowing the two partners, without binding commitments, to exchange views on specific issues and to advance political dialogue<sup>47</sup>.

In fact, the EU's strategic partnerships are a central component in its external relations<sup>48</sup>, and their importance is stressed in the EU's security strategy, "A Secure Europe in a Better World". This document, adopted at the European Council in Brussels in December 2003, states the necessity of the implementation of strategic partnerships with other key actors or regions, in the

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<sup>46</sup> See SAUTENET, Antoine, "The Current Status and Prospects of the 'Strategic Partnership' between the EU and China: Towards the Conclusion of a Partnership and Cooperation Agreement", *European Law Journal*, v. 13, n. 6, 2007, pp. 705-706.

<sup>47</sup> *Ibid.*, p. 706.

<sup>48</sup> See FRÖHLICH, Stefan, *Die Europäische Union als globaler Akteur*, Wiesbaden, VS Verlag für Sozialwissenschaften, 2008, p. 199.

light of recent changes in the world environment and the challenges these pose<sup>49</sup>.

The content of the EU's strategic partnerships is defined in part by the Common Foreign and Security Policy's objectives, which are established in article 11 I of the Treaty on European Union. In that sense, the respect for human rights, democratic values and the rule of law forms part of every strategic partnership launched by the EU. Equally, foreign policy strategic goals presented in the EU's security strategy, such as the fight against international terrorism and the proliferation of weapons of mass destruction, have shaped the EU's relations with its strategic partners.

Resulting largely from an awareness of the weight carried by a group of countries<sup>50</sup>, the EU has to date launched strategic partnerships with the United States, Canada, Japan, Russia, India, China, South Africa and now Brazil. Each of these partnerships, as argued above, have in common the fact that their contents reflect the EU's foreign policy goals and principles. Still, each relationship is formed according to EU's specific agenda towards its strategic partner.

In this context, while energy plays a major role in relations between the EU and Russia<sup>51</sup>, respect of human rights, the arms embargo and the Chinese army's growing capabilities in relation to Taiwan are the key issues of the relationship between China and the EU<sup>52</sup>. Equally, India's nuclear tests, India-Pakistan relations and terrorism are the central areas of the EU-India strategic partnership.<sup>53</sup> In effect, each EU strategic partnership deals with the most contentious issues.

Notwithstanding the divergence in views between the EU and its strategic partners, the instrument of the strategic partnerships has helped the EU to improve its economic profile in different regions of the world<sup>54</sup>. Furthermore, it has proved useful for the EU to achieve a shared understanding on major global issues with its partners<sup>55</sup>. It would be naïve to believe that the EU-China strategic partnership could change the current human rights situation in China, or similarly that the EU-Brazil privileged relations could solve the problem of the rise of populist regimes in South America. However, it is realistic to think that these special relationships can provide some structure to

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<sup>49</sup> See EUROPEAN COUNCIL, *A Secure Europe in a Better World*, European Security Strategy, Brussels, 2003, p. 16.

<sup>50</sup> FRÖHLICH, *op. cit.*, pp. 230-231.

<sup>51</sup> For current analysis on the EU-Russia strategic partnership see *ibid.*, pp. 199- 217.

<sup>52</sup> More on the EU-China strategic partnership see *ibid.*, pp. 223-230.

<sup>53</sup> See BAROOWA, Saponti, "The Emerging Strategic Partnership between India and the EU: A Critical Appraisal", *European Law Journal*, v. 13, n. 6, 2007, pp. 747-748.

<sup>54</sup> On this note, the EU's strategic partnership with India has offered the bloc important trade opportunities. In 2005, bilateral trade grew by 20,3% and since 2001 it has grown by 11% on a yearly average. See *ibid.*, pp. 738-739.

<sup>55</sup> In this regard, the EU-China Summits have proved effective in achieving the convergence of views on numerous regional and international questions, for example, the North Korean problem, support for the International Criminal Court and the resolution of the Iraq conflict. See SAUTENET, *op. cit.*, p. 710.

reach a common international engagement between the partners, at least in the long run.

Through the establishment of strategic partnerships the EU manages to project its values and principles as a “civilian power”, and at the same time to secure its prominent position in the international arena through alliances with key global and emerging partners. Despite the tensions inherent to each partnership, the instrument has been effective for the EU’s pursuit of its foreign policy objectives.

## **VI. Conclusion**

Relations with the EU have always occupied a special position on Brazil’s foreign policy agenda. However, this situation has changed under President Lula’s government, whose foreign policy has prioritized the South-South Cooperation over relations with major powers like the EU. Yet a new impulse was given to the bilateral relationship in July 2007 with the launch of the strategic partnership between Brazil and the EU.

Two EU strategic objectives lie behind this new. Firstly, a strategic partnership with Brazil, a country with a prominent role in multilateral trade negotiations, could move the EU-Mercosur negotiations forward, in order to reach a bilateral agreement. The second objective concerns the stabilization of the regional integration process in South America. Brazil’s positive leadership, supported by the EU, could diminish the negative impact of populist regimes throughout the region. Equally, Brazil has strong interests in establishing a partnership with the EU, mainly because this could strengthen its position on the world stage.

The strategic partnership covers a wide range of sectors where closer cooperation between the EU and Brazil could be mutually beneficial. These include global challenges like tackling poverty and inequality, environmental issues and energy. On a bilateral level, the parties have agreed to further cooperation in areas such as economic and financial issues, air and maritime transport, information society, satellite navigation and social matters.

The impact of the strategic partnership on Mercosur’s integration depends on the internal dynamics of Mercosur, but mostly on Brazilian foreign policy orientation. In this context Brazil must make clear that its strategic partnership with the EU does not compromise its commitment to the Mercosur project. Regarding EU-Mercosur negotiations, despite the recognition that an interregional agreement is one of the top priorities of the EU-Brazil strategic partnership, there is an obvious incoherence between both sides’ political declarations in the context of the Lisbon Summit and the persistent differences between the EU and Brazil in the Doha Development Round.

Therefore, whilst there is the prospect of an EU-Brazil strategic partnership full of potential and great opportunities, areas of divergence and challenges remain. As argued above, the instrument of the strategic partnerships has proven to be effective in enhancing bilateral cooperation

between the EU and different regions of the world, even when relations are tense. This is certainly an incentive for Brazil and the EU to commit themselves to moving their relationship forward.

Relations between the EU and Brazil have been highly competitive recently, but these differences may not preclude a successful strategic partnership. On the contrary, such a special relationship could provide an arena in which these differences and challenges can be dealt with and overcome.

## VII. Annexes

**Figure I. Brazil's Trade Exchange - Exports**

	US\$ million									
	2003		2004		2005		2006		2007	
	Amount	Part. %	Amount	Part. %	Amount	Part. %	Amount	Part. %	Amount	Part. %
ALADI <sup>1</sup>	7.274	9,9	10.831	11,2	13.752	11,6	17.510	12,7	19.072	11,9
China	4.533	6,2	5.441	5,6	6.835	5,8	8.402	6,1	10.749	6,7
Mercosur	5.684	7,8	8.935	9,2	11.746	9,9	13.986	10,2	17.354	10,8
EU	18.816	25,7	24.676	25,5	27.039	22,8	31.045	22,5	40.428	25,2
USA	16.728	22,9	20.099	20,8	22.540	19,0	24.525	17,8	25.065	15,6

Source: Ministry of Development, Industry and Foreign Trade of Brazil

1/ excluding Mercosur

**Figure II. Brazil's Trade Exchange - Imports**

	US\$ million									
	2003		2004		2005		2006		2007	
	Amount	Part. %	Amount	Part. %	Amount	Part. %	Amount	Part. %	Amount	Part. %
ALADI <sup>1</sup>	2.525	5,2	3.636	5,8	4.562	6,2	7.314	8,0	8.951	7,4
China	2.148	4,4	3.710	5,9	5.355	7,3	7.990	8,8	12.618	10,5
Mercosur	5.685	11,8	6.390	10,2	7.054	9,6	8.967	9,8	11.630	9,6
EU	13.053	27,0	15.990	25,5	18.236	24,8	20.203	22,1	26.736	22,2
USA	9.569	19,8	11.357	18,1	12.667	17,2	14.657	16,1	18.722	15,5

Source: Ministry of Development, Industry and Foreign Trade of Brazil

1/ excluding Mercosur