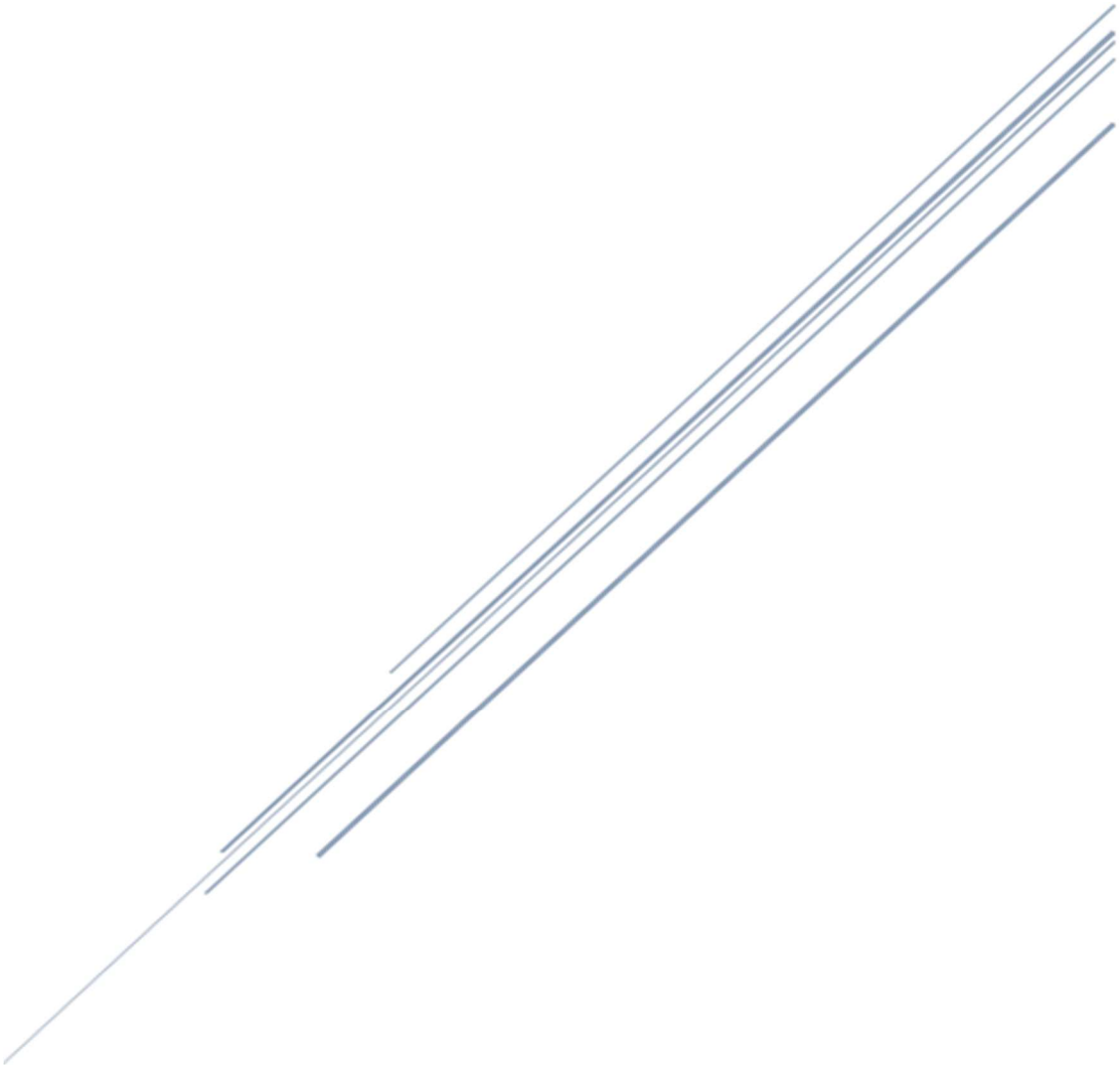
FGV INTERNATIONAL INTELLIGENCE UNIT

FGV IIU Flash Notes

THE VON DER LEYEN AGREEMENT AND BRAZIL'S

Renato G. Flôres Jr



FGV IIU International Intelligence Unit

Rio; August 4, 2025.

FGV IIU is a small think tank directly connected to the Presidency of Fundação Getulio Vargas. **FGV IIU** follows the international scene with the purpose of identifying issues, trends and partners relevant for Brazil. It also contributes to either explain Brazilian issues and characteristics to foreign audiences, or help local business and institutions to endorse methods and standards to enhance their international competitiveness. The exchange of good practices, in both directions, is a subsidiary aim of the Unit.

FGV IIU Flash Notes are short reports addressing pressing or hot issues in the international scene, with a likely strong interaction with Brazil. They state a viewpoint considered relevant for the moment at stake; by their very nature, the situation they address may change, new information, data or events may come or happen, and conclusions accordingly become dated. The views in **FGV IIU Flash Notes** do not engage in any way FGV or its executives and only pertain to the respective Authors; if not signed, FGV IIU's Director is solely responsible for them.

FGV IIU Flash Notes are identified by the date of issue, at the right bottom of the front page.

Comments -encouraged and welcome- should be sent to **npii@fgv.br .**

FGV IIU
www.iiu.fgv.br
npii@fgv.br

Director: Renato G. Flôres Jr.

Rua Treze de Maio 210, 13th floor; Rio de Janeiro, Brazil.

Voice: +55 21 3799 6220 (Licia)

THE VON DER LEYEN AGREEMENT AND BRAZIL'S

1. Introduction.

After listening, without uttering a single comment, to the US President repeatedly bash the wind power option in the sustainable energy portfolio, the leader of the international champion in claiming for cleaner energy generation fixed a so-called trade deal with the talkative president.

With the same face that she put on for the previous harangue, Mrs. von der Leyen signed and announced an agreement, crowning the super-tariffs' affair, with a contrived smile; the dilated veins in her neck telling better than words the ordeal she had been through. Despite this and other physical signs –a subject for analysts other than those who write Flash Notes- the EU leader announced that it was a good agreement, securing –among other things- reliable and *bon marché* energy -precisely one of the clay feet of the environmental champion.

The Von der Leyen Agreement allows US goods enter with zero tariffs in the EU zealous and over-regulated borders, while the other direction of the trade flows faces a 15 percent *ad valorem* tariff, when reaching the 'indispensable nation'[1]. Other constraints –to be detailed below- are added to this background, compounding a *palco scenico* of tame acquiescence.

The associated energy deal, in particular, made critics inside and outside the EU realm to wonder whether Mrs. von der Leyen was in due possession of her rational faculties. It led the usually rather professional and discreet Russian president to comment it with a diplomatic smile; her concept of good energy contracts was innovative.

Backing her announcements were arguments that the starting point for (her) negotiations was much worse –the first, usually coarse clarion call from the other side of the Atlantic, announced that 35 percent tariffs would be enforced because … well, because they wanted- than

[1] In the words of former US State Secretary, Mrs. Madeleine Albright.

the final result, and the mantra that total decoupling from Russia, especially as regards energy dependence, was a major EU objective for the welfare of its citizens, the ultimate goal of her crusade.

To perhaps a feeble further excuse, Japan also ended with a 15, Vietnam with 20, and Indonesia and three other ASEAN members got 19. Only China stood to the challenge, and reciprocated with a wise move, by cutting the indispensable rare earth exports to the US. Negotiations continue, though the initial (universal) 10 percent flat rate has been maintained.

Grand strategy, as known, is driven by three factors: psychology, politics or rather geopolitics, and an objective evaluation of the balance of power. One wonders what is in the mind of the present European leaders who, while not listening to a large fraction of their citizens' will, act out of a psychology of fear and completely disregard the (smart and soft) power assets built through great trouble and strife, during so many decades …

While these puzzling events were taking place, Brazil –like a South American Atlas- was holding on its shoulders the imminent weight of an imposition of 50 percent tariffs on all its exports to the great Northern Brother. Debated questionings on the country's internal institutional and political life were also, in this case, part of the gift.

Will Brazil eventually close a fantastic –in von der Leyen's logic- agreement, similar to the EU one, or will the country adopt a tropicalised Chinese-strategy and stand against the flamboyant President's administration, not to say the economic power he commands?

This brief Note elaborates on this, outlining how catastrophic the EU deal was and the odds related to the Brazilian situation. It concludes by contrasting the two economies under duress and outlining a few preliminary policies for Brazil, both as regards its Eastern Atlantic margin partner and its trade policies in general.

2. Yorktown redux.

The year 1781 associated with the name of Yorktown is likely to evoke bad memories to the British Army. From September 28 to October 19, the rebel forces under (US founding father and) hero George Washington –with more than a little help from French troops and warships- sieged and highly damaged the imperial forces, eventually leading General Cornwallis to surrender. The victory, contrary to a previous one, nearly so historical, at Saratoga, was definitive. It constrained

the Empire a few days later to sign a peace treaty, ending the war against the former colonies, to the great despair of the peculiar mind of (mad?) King George III.

On July 27, 2025, a new Yorktown was enacted, in a different context and with the glorious Empire changed for the falling EU. Nevertheless, the spirit is similar. A European power acknowledged its impotence before American desires. Not 13 colonies were lost; rather on the contrary, a new one became apparent.

Broadly, EU goods enter the US under a 15 percent tariff, while those from the States enjoy zero tariffs. Exceptions exist in both ways, higher or lower. The 50 percent tariffs recently applied to EU steel and aluminium are maintained; zero or lower (than 15) tariffs are enforced on aircraft and related components, a few chemical goods and food products not found in the US. This is not the outcome of skilful EU negotiations, but rather the demand from the US companies in the aircraft value chains and similar others.

Additionally, the EU has committed to acquire 750 bn US$ of US energy –mainly from shale gas- during three to four years, and spend 600 bn US$ in US "investment", mostly weapons, beyond those sums already committed by NATO. An agreement on semiconductors has been aired, but it seems difficult given the administration priority of boosting their domestic production, against more enlightened views on creating global market dependencies, by a few top manufacturers.

Changing the low cost Russian gas whose supply could be resumed from Nordstream 2[2], for the inefficient and expensive US shale is hard to conceive[3]. Channel much needed extra funds to the already insane "war budget" is to flounder the European project out of a gross misconception. It cuts health, education, research, culture, urban improvements and citizen's welfare investments: dimensions that compound the essence of the EU project.

No words came from Mrs. von der Leyen on the sheer abuse the opening threat that forced the 'agreement' was. It violated WTO commitments, rules and procedures; it had the economic rationale of a brutal protectionist. What about EU's devotion to multilateralism and fair trade policies and negotiations? The silence was shameful.

Besides the contrived grimaces, she issued on the very same day a letter to the EU citizens praising the Agreement, where no mention is made of the additional expenditures committed, nor of the 50 percent tariffs kept. What about transparency? or was the Agreement so bad that she had

[2] Not yet destroyed by self-terrorism; should perhaps be added.

[3] The incongruous EU energy policy is not a matter of today. See for instance, *Europe's Fatal Mistake: The European Union Energy Policy since 1990*, Renato G. Flôres Jr., Jean Monnet Atlantic Network 2.0, April 2023, downloadable either at www.iiu.fgv.br or at the project's website.

to adorn it with jewels of euphemism like "… the EU and the US face the common external challenge of global overcapacity. We will work together to ensure fair global competition …"[4], when talking about aluminium and steel.

What about the already decaying image of the EU among the Global South? Regions like Latin America and parts of Africa and Asia that still counted on it as the third option? An option grounded on respect to legal procedures, open multilateralism and concerns for the citizen.

The Von der Leyen Agreement has put the Union on its knees –as has been already happening with NATO-, showing that the present EU administration and most of its leaders became nothing but a lackey of the US. They let go down the drain the promises, hopes and no mean feats that so dignified and enlightened the European project.

4. The Giant stirs.

In the Brazilian case, the opening salvo was heavier: a 50 percent *ad valorem* tariff on all the country's exports to the US.

Regarding the volume of trade, the US represents a much higher percentage of Brazilian exports than Brazil amounts to their trade. However, with around 38,1 bn US$ exported[5] to the US in 2023, Brazil has in the EU and China more relevant partners (to where went 50,8 and 89,7 bn US$ of Brazilian exports, respectively, in the same year). US goods face an average tariff of 11,3 percent when crossing Brazilian customs, while Brazilian ones suffer an average of 2,2 percent[6]. The balance of trade oscillates, but is usually favourable to the US.

Brazilian reaction followed two lines. From one side, the President's usual braggadocio seized the moment to lecture on sovereignty and the fearsome autonomy of the country. A bit over, surely with an eye on next year's elections, but not bad. Even justified, to some, given that the excessive figure carried a message beyond a "trade correction": a punishment for "bad domestic and international behaviour" –a point left clear in the announcement and reinforced by a letter of the US President on the very same issue. Undoubtedly, the limits of respect to another country's domestic procedures and decisions –independently of their quality or motives- were trespassed.

[4] Verbatim, from Statement by President von der Leyen on the deal on tariffs and trade with the United States, Prestwick, 27 July 2025, European Commission – STATEMENT/25/1915.
[5] All flows' values in this text come from the United Nations COMTRADE database.
[6] According to FGV IBRE, Boletim Macroeconômico, Fevereiro 2025.

The second line, led by the Vice President, sided by the Ministers of Foreign Relations and of Finance, together with segments of politicians and exporters, started to try negotiations with the US administration and US importers, while devising measures to mitigate the impacts of the likely imposition.

The August 1 starting date came in the middle of both pursuits and, faithful to the Hegemon's present *stick & carrot-in-indefinite-succession* strategy, a deadline postponement to August 6 was made. Between 38 to about 50 percent of Brazilian exports were spared the high tariff[7] –though still subject to the 10 percent tariff previously graced to nearly the whole world.

Surprisingly, goods like coffee, or special fruits like mango, prized by US consumers and not produced domestically, were outside the exceptions list. They might eventually get in[8].

Though displaying behaviour much more akin to an independent nation than the EU's one, no merit can be given to the Brazilian efforts yet. The substantial exceptions have once again been the outcome of the powerful lobbies of the related US final consumers and associated value chains.

Hoping that the country pursues the overall instance of its reaction, a Chinese-like approach seems the right track. Brazil, despite having a reciprocity law that allows it to retaliate with the same level of tariffs, has other sharp alternatives. In any case, a tariff retaliation should contain exceptions, as medical equipment, aircraft components (an intra-industry flow) and implements for the agro-business, for instance. In 2023, imports from the US amounted to 46,4 bn US$, and the high tech flows shouldn't be more taxed –at least for the moment.

Property rights in select pharma industries, where medicine with expiring patent can receive incentives for generic production –either locally, or by Indian and Canadian partners already close to the country, are an example. Taxes and wise constraints on platforms and data storage users open another area for retaliation. The country is becoming a darling for data centres –no wonder, given its availability of space, water and affordable energy. By 2030, 8 to 9 thousand units may be in operation; many, if not the majority, will belong to US data providers[9].

The service sector can offer other opportunities for policies combining tough curbs with further openings, benefitting Brazilian firms and attracting third parties' providers. And, of course, trade diversion is a must.

---

[7] The precise figure is uncertain at this moment, as a clear definition of all the product codes affected must be made. Most statements up to now loosely refer to broad groups of products.

[8] At the moment of closing this Note, rumours came that China would buy the whole amount of coffee to be initially sold to the US.

[9] I am indebted to José Pio Borges for a creative discussion on the alternatives in this paragraph, keeping however full responsibility for the text.

In all policies and negotiations, contrary to the shy EU rhetoric, the illegal character of the imposition must be (re-)emphasised, and the WTO principles brought forth whenever possible and meaningful. In addition, a little bragging –with no personal offences and qualifications- may match the uncontrolled spouting from the other side.

4. Will the Giant stand up?

The design of an adequate reaction intersects with the larger one of global trade policy design. In the case of BRICS, and Brazil's position within the group, an outline was presented in Trade Brief 11/2025[10]. It must be pursued and even a concerted effort with China, India and South Africa, three other victims of heavy fire, should be considered. Without pretence of tackling broader issues as such, a few points regarding external measures –to accompany the domestic ones, in the previous section- are discussed below.

It is important to keep the existing linkages with the EU. Notwithstanding, the transition phase it has been enduring, starkly exemplified by the present deal, leaves scarce room and incentives for an increase in trade relations. Moreover, it is high time to stop invoking the Holy Grail of the never-to-be-concluded Mercosul-EU Free Trade Agreement. It belongs to the past, and only self-promoting political motivations, together with a few well intentioned though mistaken sectors and analysts, still invoke this treaty that long lost its lustre.

Both sides are to be blamed, but the truth is: the EU, obliging to its powerful protectionist lobbies, never wanted it. The misguided objectives, subservient attitude and manifold uncertainties that characterise its decision making nowadays make it more than ever an illusion. Even the search for topical alliances in common issues like data protection and the regulation of platforms, a collaboration that should be maintained and increased, raises doubts on its feasibility and, more importantly, efficacy. Something to be checked.

The diversion of the US export flows should further help creating stronger associations with the important regional associations, the ASEAN and the AfCFTA (African Continental Free Trade Agreement). The Gulf and Saudi Arabian economies, in a clear globalisation mood, could receive commodities and food products to enhance their tables and trigger new ventures: to the desert dates the Brazilian mango should be added, the Dubai chocolate could pair with Brazilian coffee in multiple combinations. Coffee is highly prized in China and in Central and Eastern Europe, Russia

[10] Downloadable at www.iiu.fgv.br .

to begin with. Brazilian meat, despite the tough competition from Australia in Eastern Asia, has plenty of niches to exploit.

The fact that BRICS are strong in key commodities, be it in the energy or mineral sectors, is a further incentive to accelerate the creation of mechanisms for co-ordinating the joint exploration and export of such goods. Efforts designed to assess the combined reserves, exploitation and exports of each critical mineral, for instance, may improve the groups' and Brazil's standing in the respective markets. Without excluding ventures aiming at value-added creation, even with the US itself.

The Republic of Korea deserves special mention. The reason is twofold. Trade and investment links with Brazil have been increasing during the past few years, and the Eastern economy is a key supplier of high tech goods to the country. It is an important vertex in a triangle made with China and Japan.

Mexico, despite its unavoidable, deep and complex relationship with the US, may come closer. In South America, Colombia is also an important target, while a joint pursuit to increase connectivity in the continent would be welcome. This can easily spread to Central America, under the common goal of establishing new connections between the Atlantic and the Pacific. There is substantial international interest on this, and development banks –notably the AIIB Asian Infrastructure Investment Bank- would gladly engage in such efforts.

Nobody claims that these changes happen overnight. They demand focus, intelligence and work, as whenever one is opening new markets or forging new partnerships. Nevertheless, they are feasible.

For the Giant to stand up and walk, a change of mind from the crystalised focus on the US and the EU must take place. Diplomats, traders, civil servants, intellectuals, professors and the layman must know more about Asia and Africa. The disproportionate focus on the two pillars of the Incumbent North reflects itself on the number of embassies and knowledgeable people –in all sectors and domains- on both of them; exponentially higher than those related to the two other regions. If this makes sense historically, a better balance must be pursued.

5. Conclusions.

The new US administration has been testing the limits of its hegemonic power. One of the experiments –if one could say so- has been the out-of-the-blue imposition of new, high, irrational

and illegal tariff duties, and then indulging in watching how different countries face the issue, or engage in negotiations to lower the damage. Negotiation actually does not seem the correct word, as what has been taking place are different displays of servitude, or of the strength of the targeted countries' dependence on the US economy. Quite many have made the pilgrimage to Washington D.C., to kowtow to the Hegemon's President and present their humble offers of lower tariff levels at the expense of varied commitments and –one never knows- a few supplementary gifts.

Three cases deserve notice. The first is China. Clearly naming the abuse, it replied with its usual, firm restraint, playing, among other things, with the rare earths card. The situation remains in a state of flux.

The second, exemplifying another extreme of the outcomes, was the EU. The great and faithful ally of the Hegemon was slashed, to its astonishment, with substantial tariffs. Following a pathetic behaviour (with few individual member country exceptions) at NATO, it fixed a deal that will become historical as a crucial surrender of hopes and achievements of the European project.

The third is Brazil, a country hard to understand for outsiders, whose size, resources and violent contrasts defy a precise labelling. Up to now, Brazil's reaction guards more similarities to China's than to those that have succumbed to the tricky President-gambler. It is definitely not akin to the sad EU performance. Though the trend is broadly positive, an unexpected denouement is not excluded.

This Flash Note pledges for a sustained opposition to the arbitrariness, combining precise retaliations, clever targeting of damaged US importers, trade diversion and a continued posting of the disrespect to multilateral agreements in force and, in particular, the WTO trade order. An unquestionable support of peaceful and constructive diplomacy must also, calmly and loudly, be reiterated.

The reaction can be an additional incentive to a redesign of the country's trade policies, including –beyond a rethinking of the tariff structure[11]- a significant geographic shift in partners and the discarding of the panacea of deep trade agreements, like the Mercosul-EU Zombie Free Trade Area. Focussed and better-framed treaties should nevertheless be pursued.

[11] A point that has been the sole note of many recent comments and analyses, overlooking both several other measures as the ones here outlined and the not so simple relation of any given tariff structure with the Mercosul commitments.