



# Brazil-U.S. Relations

**Clare Ribando Seelke**

Specialist in Latin American Affairs

**Peter J. Meyer**

Analyst in Latin American Affairs

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## Summary

On January 1, 2007, Luis Inácio Lula da Silva, of the leftist Workers' Party (PT), was inaugurated for a second four-year term as President of Brazil. Lula was re-elected in the second round of voting with fairly broad popular support. His immediate tasks were to boost Brazil's lagging economic growth and address the issues of crime, violence, and poverty. Despite President Lula's personal popularity, many predicted that inter-party rivalries within his governing coalition would make it hard for him to push his agenda through Brazil's fractured legislature.

President Lula has enjoyed high approval ratings and benefitted from a strong economy throughout most of his second term. The global financial crisis, however, has slowed Brazil's economic growth and is threatening to erase the social gains made in recent years. President Lula has implemented countercyclical policies to boost the economy and protect those most exposed to the effects of the economic downturn. A number of analysts believe it is unlikely that the Brazilian Congress will act on Lula's stalled legislative agenda given the need to address the effects of the financial crisis and the political parties' increased focus on the October 2010 presidential election.

During the first Lula term, Brazil's relations with the United States were generally positive, although President Lula prioritized strengthening relations with neighboring countries and expanding ties with nontraditional partners, including India and China. Brazil-U.S. cooperation has increased during President Lula's second term, particularly on energy issues. Two presidential visits in March 2007 culminated in the signing of the Memorandum of Understanding (MOU) Between the United States and Brazil to Advance Cooperation on Biofuels; the agreement was expanded in November 2008. President Obama has made it clear that he would like to continue strengthening U.S.-Brazilian relations. In March 2009, President Lula became the first Latin American leader to meet with President Obama.

During the 110<sup>th</sup> Congress, the House passed H.Res. 651 (Engel), recognizing the expanding relationship that exists between the United States and Brazil and the importance of U.S.-Brazil biofuels cooperation, and H.Res. 1254 (Engel), supporting the U.S.-Brazil Joint Action Plan Against Racial Discrimination. The 111<sup>th</sup> Congress has maintained interest in Brazil. Both the House and the Senate passed resolutions (H.Res. 125 and S.Res. 37) in March 2009 calling on Brazil to comply with the requirements of the Convention on the Civil Aspects of International Child Abduction and to assist in the safe return of Sean Goldman to his father in the United States. On March 12, 2009, a resolution was introduced in the Senate (S.Res. 74, Lugar), that would recognize the importance of the U.S.-Brazil partnership and call on the U.S. Treasury Secretary to pursue negotiations concerning a bilateral tax treaty. Additionally, the Western Hemisphere Energy Compact (S. 587, Lugar)—which would provide \$6 million to expand U.S.-Brazil biofuels cooperation in FY2010—was introduced on March 12, 2009.

This report, which will be updated periodically, analyzes Brazil's political, economic, and social conditions, and how those conditions affect its role in the region and its relationship with the United States.

## Contents

Background .....	1
Political Situation.....	2
The First Lula Administration .....	3
October 2006 Elections .....	3
The Second Lula Administration .....	4
Economic and Social Conditions .....	5
Economic Challenges and Efforts to Boost Growth .....	5
Social Indicators .....	6
Foreign and Trade Policy .....	7
Relations with the United States .....	9
Selected Issues in U.S.-Brazil Relations .....	10
Counternarcotics .....	10
Counterterrorism and the Tri-Border Area .....	11
Energy Security .....	11
Oil .....	12
Ethanol and Other Biofuels .....	12
Nuclear Energy .....	13
Trade Issues .....	14
Doha Round of the World Trade Organization Talks .....	14
World Trade Organization Disputes .....	14
Generalized System of Preferences .....	15
Intellectual Property Rights .....	15
Human Rights .....	16
Violent Crime and Human Rights Abuses by Police.....	16
Race and Discrimination .....	17
Trafficking in Persons for Forced Labor .....	18
Goldman Custody Case.....	18
HIV/AIDS .....	20
Amazon Conservation.....	20
Domestic Efforts.....	21
Carbon Offsets and Other International Initiatives .....	22

## Figures

Figure 1. Map of Brazil.....	23
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## Contacts

Author Contact Information .....	24
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## Background

Brazil is considered a significant political and economic power in Latin America, and an emerging global leader. A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity, including the vast Amazon rainforest, and significant natural resources. Brazil is the fifth most populous country in the world. Brazil's 191 million citizens are primarily of European, African, or mixed African and European descent.<sup>1</sup> With a gross domestic income (GNI) of \$1.8 trillion in 2007, Brazil's diversified economy is the tenth largest in the world, the largest in Latin America, and one of the largest in the developing world, but per capita GNI is only \$5,910, and the country has an unequal income distribution.<sup>2</sup> Brazil has long held potential to become a world power, but its rise to prominence has been curtailed by political setbacks, including twenty-one years of military rule (1964-1985), social problems, and uneven economic growth.

Between World War II and 1990, both democratic and military governments sought to expand Brazil's influence in the world by pursuing a state-led industrial policy and an independent foreign policy. Since the 1990s, Brazilian foreign policy has focused on strengthening ties with other South American countries, engaging in multilateral diplomacy, and acting at times as a countervailing force to U.S. influence in Latin America. In recent years, for example, Brazil led other South American countries in blocking the creation of a U.S.-backed Free Trade Area of the Americas (FTAA). Under President Luis Inácio Lula da Silva, Brazil has aimed, with varying degrees of success, to raise its global profile. Brazil has become a leader of developing countries in the Doha round of the World Trade Organization (WTO) talks and has sought to increase trade ties with other emerging economies, such as China, India and South Africa. Additionally, Brazil is commanding a multinational United Nations Stabilization Mission in Haiti. Brazil has also become a global leader in biofuels production and may become an increasingly important petroleum exporter.

Currently, relations between the United States and Brazil may be characterized as friendly. The United States has increasingly regarded Brazil as a significant regional power, especially in its role as a stabilizing force in Latin America. Despite periodic disagreements on trade and political issues, Brazil and the United States have worked closely on a wide range of bilateral and regional issues. U.S. officials have responded positively to Brazil's recent efforts to reassert its regional leadership, which has been challenged by the rise of oil-rich Hugo Chávez in Venezuela.<sup>3</sup> Early in 2007, two high-level meetings between Presidents Bush and Lula strengthened U.S.-Brazilian relations. The latter meeting culminated in the March 2007 signing of a U.S.-Brazil Memorandum of Understanding (MOU) to promote bio-fuels development in the Western Hemisphere.<sup>4</sup> The

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<sup>1</sup> Brazil has never had a large indigenous population. Today Brazil's indigenous population consists of roughly 460,000 persons, many of whom reside in the Amazon. U.S. Department of State, *Country Reports on Human Rights Practices 2007: Brazil*, March 2008.

<sup>2</sup> World Bank, *World Development Report 2009*.

<sup>3</sup> Monte Reel, "U.S. Seeks Partnership with Brazil on Ethanol; Countering Oil-rich Venezuela is Part of Aim," *Washington Post*, February 8, 2007.

<sup>4</sup> For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

initiative was expanded in November 2008 to include additional countries in Africa, Central America, and the Caribbean (See “Ethanol and Other Biofuels” section below).<sup>5</sup>

## Political Situation

The Brazilian political system has several unique characteristics that distinguish it from other countries in Latin America. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Even during the centralizing government of Getúlio Vargas and the Estado Novo, or New State (1937-1945), landowning remained the source of local power in Brazil and states retained considerable autonomy. Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. Brazil was also one of the last countries in the region to abandon state-led economic policies in favor of market reforms. Significant pro-market reforms did not occur until the government of Fernando Henrique Cardoso (1994-2002).<sup>6</sup>

During the first decade after its return to democracy in 1985, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office; the other was impeached on corruption charges. In 1994, Cardoso, a prominent sociologist of the center-left Brazilian Social Democratic Party (PSDB), was elected by a wide margin over Luis Inácio Lula da Silva of the Worker’s Party (PT), a former metalworker and union leader who had led the PT since the early 1980s. Cardoso was elected largely on the basis of the success of the anti-inflation “Real Plan” that he implemented as Finance Minister, which resulted in a new currency (the real) pegged to the dollar in July of 1994. During his first term, Cardoso achieved macroeconomic stability, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Despite those achievements, the Cardoso government was unable to enact much-needed political and social changes, such as social security, tax, or judicial reforms.

President Cardoso sought a second presidential term after a constitutional reform was passed in 1997 to allow for reelection, and he defeated Lula da Silva in the first round of voting in October 1998 with 53% of the vote. President Cardoso’s popularity fell towards the end of his second term, however, as Brazil faced a series of financial crises. Most analysts credit Cardoso with restoring macroeconomic stability to Brazil’s economy and solidifying its role as leader of the

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<sup>5</sup> “Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development,” U.S. Department of State, Office of the Spokesman, November 20, 2008.

<sup>6</sup> For a historical overview of Brazil’s political development, see Bolivar Lamounier, “Brazil: Inequality Against Democracy,” in Larry Diamond, Jonathan Hughes, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Latin America*, Boulder, CO: Lynne Reiner, 1999.

Southern Common Market (Mercosur)<sup>7</sup>, but fault him for failing to implement more aggressive political and social reforms.<sup>8</sup>

## The First Lula Administration

In 2002, Lula da Silva ran in his fourth campaign for the presidency of Brazil. Unlike in his previous failed campaigns, he moderated his leftist rhetoric and, while still advocating greater attention to social issues, promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. The 2002 presidential election proved to be a referendum on eight years of "neo-liberal" policies enacted by Cardoso. High unemployment rates and economic stagnation led voters to support Lula, a critic of neoliberalism. Lula was elected decisively in the second round of voting with a significant majority of the vote compared to Cardoso's designated successor, José Serra, the Minister of Health and senator from São Paulo.

During his first term, President Lula maintained the restrained economic policies associated with his predecessor. In 2003, the Lula government enacted social security and tax reforms, and in 2004, a law to allow more private investment in public infrastructure projects. President Lula launched several social programs, some of which have been more successful than others. The *Bolsa Familia* (Family Stipend) program, which provides monthly stipends to 11.1 million poor families in exchange for compulsory school attendance for all school-age children, has been credited with reducing poverty, but some critics argue that it has made poor households too dependent on government handouts.<sup>9</sup> By 2005, legislative initiatives had stalled, and President Lula was increasingly criticized for failing to develop effective programs to address land distribution and crime. Critics argued that, ironically, one of the Lula government's only major achievements in the first term was to maintain the orthodox economic policies of the Cardoso administration. In 2006, some analysts began to dismiss President Lula's efforts to expand Brazil's international profile as a leader among developing countries as "a relatively inexpensive [tactic] to shore up domestic support"<sup>10</sup> that had failed to yield many concrete results. Criticism of Lula further escalated with the onset of several corruption scandals involving top PT officials that occurred during the latter half of Lula's first term.<sup>11</sup> A congressional inquiry in April 2006 cleared President Lula of any direct responsibility for the scandals.

## October 2006 Elections

President Lula captured 61% of the votes to the PSDB's Gerardo Alckmin's 39% in the second round of presidential elections held in late October 2006. President Lula won handily in the poorer north and northeastern regions of the country, but failed to carry the more prosperous

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<sup>7</sup> Mercosur is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991. See CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>8</sup> Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997; Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004.

<sup>9</sup> Anthony Hall, "From *Fome Zero* to *Bolsa Familia*: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006.

<sup>10</sup> Jeffrey Cason, "Hopes Dashed? Lula's Brazil," *Current History*, February 2006.

<sup>11</sup> Wendy Hunter, "The Normalization of An Anomaly: The Worker's Party in Brazil," Paper Presented at the Latin American Studies Association Conference, March 2006.

southern and western states or São Paulo. Observers have assessed that Brazilians, though divided by class and region, effectively voted in favor of continuing macroeconomic stability under a second Lula Administration despite the corruption scandals that had involved Lula's party during the first term.

The PT did not fare as well as President Lula in the legislative elections, suffering a loss of nine seats in the Chamber of Deputies and losing four Senate seats. Some assert that the election outcome shows that President Lula successfully distanced himself from the PT and its corruption scandals, relying on his personal popularity rather than his party affiliation to win. Others attribute his win to the success of the Bolsa Familia program and the country's macroeconomic stability, which led voters in poorer income brackets to overwhelmingly support him.<sup>12</sup>

## The Second Lula Administration

Despite enjoying high approval ratings (69% in May 2009)<sup>13</sup> and several years of strong economic growth, President Lula's second administration has been periodically hindered by corruption scandals and a lack of support from members of his coalition. For example, legislative progress stalled throughout 2007 as the President of the Brazilian Senate, Renan Calheiros, a key Lula ally, faced corruption charges. In December 2007, Senators voted to acquit Calheiros of all wrongdoing even though a congressional ethics panel had recommended that he be impeached. President Lula suffered another major setback in December 2007 as Senators—including some of his own supporters—voted not to extend the provisional tax on financial transactions (CPMF) that his government had requested.<sup>14</sup>

October municipal elections dominated the political scene in Brazil throughout much of 2008. Although polls predicted that PT candidates would sweep a majority of the mayoral races held in large cities in the first round of voting, the PT did not perform as well as expected. While the number of PT mayors increased from 411 to 559, the PT only won 6 mayoral races in state capitals and lost a second round run-off election for the politically-important mayorship of São Paulo. The PT-allied PMDB won 1,201 mayoral races while the main opposition party, the PSDB, won 786. Together, the 12 parties in the ruling coalition won 76.9 million votes, nearly 60% of all votes cast.<sup>15</sup>

President Lula has been challenged by an increasingly independent PMDB since that party's stronger than expected results in the municipal elections. Although the PMDB had agreed to back a PT president in the Senate in exchange for PT support for a PMDB president in the Chamber of Deputies, the PMDB reneged on the agreement and won control of both houses. Since taking control, the PMDB has imposed its own legislative agenda by ignoring President Lula's proposed political and economic reforms and announcing it will repeal the constitutional article that gives presidential decrees voting precedence over other legislation. President Lula has done little to

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<sup>12</sup> Matt Moffett and Geraldo Samor, "In Brazil Campaign, A Barroom Brawl and a Class War," *Wall Street Journal*, October 27, 2006; Wendy Hunter and Timothy J. Power, "Rewarding Lula: Executive Power, Social Policy, and the Brazilian Elections of 2006," *Latin American Politics and Society*, Spring 2007.

<sup>13</sup> Elzio Barreto, "Approval for Brazil's Lula recovers to near record," *Reuters*, May 31, 2009.

<sup>14</sup> "CPMF Failure May be Beginning of 'Second Term Curse' for Lula," *Latin American Regional Report*, December 2007.

<sup>15</sup> "Brazil's PMDB in Pole Position After Municipals," *Latin News Daily*, October 28, 2008.

challenge these decisions since the PT's chances of maintaining the presidency in 2010 are likely dependent on a continued alliance with the PMDB.<sup>16</sup>

## **Economic and Social Conditions**

Throughout the last two decades, Brazil's fiscal and monetary policies have focused primarily on inflation control. When President Lula took office in 2003, Brazil had an extremely high level of public debt, virtually necessitating that he adopt austere economic policies. Despite his leftist political origins, President Lula has maintained restrained economic policies, even surpassing the IMF's fiscal and monetary targets. As a result, Brazil began to experience some benefits, including lower inflation and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule. The government's overall foreign debt was reduced by 19.9% between 2003 and 2006.<sup>17</sup> Fiscal discipline has been accompanied by record exports that enabled Brazil to achieve substantial GDP growth in recent years. Brazil still suffers from high real interest rates, however, which have dampened investment and economic growth.

Brazil is a major exporter of agricultural and industrial products and plays a significant role in the world trading system. Since 2002, Brazil has been the world's third largest exporter of agricultural products after the United States and the European Union. In 2008, Brazil was the world's leading exporter of coffee, orange juice, sugar, chicken, beef, soy, and tobacco. Demand for Brazilian commodity exports in Asia is strong, as is global demand for Brazil's manufactured goods and services. Brazil is the world's second largest producer of ethanol (after the United States) and its state-run oil company, Petrobras, a leader in deep-water oil drilling, has recently announced the discovery of what may be the world's largest oil field find in 25 years.<sup>18</sup>

Brazil also has a relatively balanced trade regime. Its main trading partners in 2008 were the European Union (24% of exports, 22% of imports), the United States (14% of exports, 15% of imports), China (8% of exports, 12% of imports), and its neighbors in Mercosur (11% of exports, 9% of imports).<sup>19</sup> In 2008, the value of Brazil's exports reached some \$198 billion and the country's trade surplus was \$25 billion.<sup>20</sup>

## **Economic Challenges and Efforts to Boost Growth**

One of President Lula's goals for his second term is to boost Brazil's lagging economic growth. Between 2000 and 2006, Brazil's annual growth rates averaged roughly 2.7%. In 2006, Brazil posted GDP growth of about 2.8%, the second lowest recorded in Latin America. In 2007, President Lula launched a Program to Accelerate Growth (PAC) aimed at boosting Brazil's growth rates to 5% per year through increased public and private investment in infrastructure. The PAC provides tax breaks and incentives to spur investment and includes measures to improve

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<sup>16</sup> "Brazil: PMDB powerbrokers may hold key in 2010," *Oxford Analytica*, March 30, 2009; "Power struggle exposes senate wrongdoings," *Latin American Weekly Report*, March 26, 2009.

<sup>17</sup> "Brazil Foreign Debt at \$168.9 Billion End-2006," *Latin America News Digest*, January 26, 2007.

<sup>18</sup> "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

<sup>19</sup> Mercosur trade statistics only include the other full members of the trade bloc: Argentina, Uruguay, and Paraguay.

<sup>20</sup> Trade data made available by *Global Trade Atlas*, 2009.

and simplify Brazil's regulatory framework. While some have praised President Lula for the PAC's investments in much-needed infrastructure projects, others have criticized him for failing to curb excessive public spending or to promote labor reform. GDP growth in Brazil reached 5.4% in 2007, and is estimated to have reached 5.1% in 2008.<sup>21</sup>

Despite the success of these efforts, some analysts have identified several factors that could constrain Brazil's long-term growth potential. These include a sizeable public debt burden, excessive government spending, inflation, high taxes and interest rates, low investment and savings rates, and an unwieldy public pension system that a 2006 report by the Organization for Economic Co-operation and Development (OECD) asserted is a significant obstacle to sustained economic growth.<sup>22</sup> Despite his popularity, President Lula has thus far not elected to use his political capital to enact much-needed structural reforms to address these issues.

The global financial crisis has further complicated President Lula's attempts to accelerate economic growth. The Brazilian economy shrank at its fastest pace in 12 years during the last quarter of 2008 and industrial output in the first quarter of 2009 was the lowest in at least 11 years. Unemployment rose to 9% in March 2009, reflecting the loss of over 800,000 jobs since November 2008.<sup>23</sup> President Lula has taken several steps to counteract these trends and minimize the impact of the financial crisis on the Brazilian economy. The government has injected at least \$100 billion of additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate by 3.5% to 10.25%.<sup>24</sup> President Lula has also acted to maintain domestic consumption in hopes of partially offsetting declines in global demand. The government mandated an above-inflation increase to the minimum wage for 2009, provided temporary tax relief, announced its intention to increase investments in its Program to Accelerate Growth (PAC) to a total of \$500 billion through 2010, and made it clear that it will not cut spending on social programs like Bolsa Familia.<sup>25</sup> Nonetheless, the Brazilian Central Bank revised its 2009 GDP growth estimate downward to just 1.2% in April 2009; some analysts believe the Brazilian economy may actually contract.<sup>26</sup>

## Social Indicators

Despite its well-developed economy and large resource base, Brazil has had problems solving deep-seated social problems like poverty and income inequality. Brazil has had one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. A 2004 World Bank study reported that some 50 million Brazilians live in poverty.<sup>27</sup> The

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<sup>21</sup> "Brazil: Country Profile 2008," *Economist Intelligence Unit*; "Country Report: Brazil," *Economist Intelligence Unit*, March 2009.

<sup>22</sup> Fabio Giambiagi and Luiz de Mello, "Social Security Reform in Brazil: Achievements and Remaining Challenges," *Organization for Economic Co-operation and Development (OECD)*, Economics Department Working Paper No. 534, December 6, 2006.

<sup>23</sup> Raymond Colitt, "Approval for Brazil's Lula hit by economic crisis," *Washington Post*, March 20, 2009; "Over the worst?," *Latin American Economy & Business*, April 2009.

<sup>24</sup> "Will the economy grow in 2009?" *Latin American Economy & Business*, February 2009; "Brazil economy: Bottoming out?" *Economist Intelligence Unit*, May 7, 2009.

<sup>25</sup> "Will the economy grow in 2009?" *Latin American Economy & Business*, February 2009; Tax Relief for the Middle Classes," *Latin American Weekly Report*, December 18, 2008.

<sup>26</sup> "Over the worst?," *Latin American Economy & Business*, April 2009; "Brazil economy: Quick View—Record drop in GDP," *Economist Intelligence Unit*, March 10, 2009.

<sup>27</sup> David De Ferranti et al., *Inequality in Latin America: Breaking with History?* Washington, DC: The World Bank, (continued...)

U.N. Development Program has identified 600 Brazilian municipalities, many in the north and northeastern part of the country, in which poverty levels are similar to those present in poor African countries. One major cause of poverty and inequality in Brazil has been the extreme concentration of land ownership among the country's elites. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.<sup>28</sup> The Brazilian government has also acknowledged that there is a racial component to poverty in Brazil. People of African descent in Brazil, also known as Afro-Brazilians, represent roughly 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.<sup>29</sup> Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities for the country's poor.

Brazil's endemic poverty and inequality have, until recently, not been significantly affected by the government's social programs. A March 2005 OECD study found that, even though Brazil had spent the same level or more of public spending on social programs as other countries with similar income levels, it had not achieved the same social indicators as those countries.<sup>30</sup> There has been more recent evidence, however, that the Lula government's Bolsa Familia (Family Stipend) program, combined with relative macroeconomic stability and growth over the past few years, has reduced poverty rates, particularly in the north and northeast regions of the country.<sup>31</sup> According to the Getulio Vargas Foundation, the level of poverty in Brazil during Lula's first term in government fell by 27.7%. Since 2002, the proportion of the Brazilian population who define themselves as middle-class has risen from 44% to 52%.<sup>32</sup>

## Foreign and Trade Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries in economic cooperation and collective security efforts, and an emerging world power. Brazilian foreign policy has been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.<sup>33</sup> Brazil engages in multilateral diplomacy through the U.N. and the Organization of America States (OAS). It is currently commanding a multinational U.N. stabilization force of some 9,000 personnel in Haiti. Brazilian foreign policy has tended to emphasize regional integration through organizations such as Mercosur, the Rio Group, and the Union of South American Nations (UNASUR). Brazil's role as a leader in South America has been challenged by Hugo Chávez in Venezuela, who has used his country's vast oil wealth to gain influence in the

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(...continued)

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<sup>28</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>29</sup> Ricard Henriques, "Desigualdade racial no Brasil," Brasília: *Instituto de Pesquisa Econômica Aplicada (IPEA)*, 2001.

<sup>30</sup> "Economic Survey of Brazil 2005," *Organization for Economic Cooperation and Development*, March 2005.

<sup>31</sup> Hall, "From *Fome Zero* to *Bolsa Familia*," November 2006; "Human Development Report 2007/8," United Nations Development Program, November 2007.

<sup>32</sup> Nilson Brandão Junior and Marianna Aragão, "Miséria no Brasil Cai 27,7% no 1º Mandato de Lula," *O Estado de S.Paulo*, September 20, 2007; "Brazil: Half the Nation, a Hundred Million Citizens Strong," *Economist*, September 13, 2008.

<sup>33</sup> Georges D. Landau, "The Decisionmaking Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

region, particularly in Bolivia and Ecuador. Whereas Lula emphasized forging relations with other emerging economies during his first term, he appears to have adopted a more pragmatic foreign policy during his second term, including a focus on improving Brazil-U.S. relations.

Since the mid-1990s, Brazil has had much more success in developing political cohesion than true economic integration among its neighbors in the Southern Cone. Mercosur was established in 1991 by Brazil, Argentina, Paraguay, and Uruguay. In 1996, Chile and Bolivia became “associate members”; Peru followed in 2003 (not implemented) and Venezuela and Mexico in 2004.<sup>34</sup> Associate members have no voting rights and need not observe the common external tariff. In October 2004, after years of talks, Mercosur and the Andean Community of Nations signed a trade pact, giving all Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—the equivalent of associate membership. This breakthrough led to the creation of the South American Community of Nations (later renamed UNASUR) two months later in a pact that included 12 countries (those in Mercosur, the Andean Community, along with Chile, Guyana, and Suriname). In December 2005, Mercosur agreed to the accession of Venezuela as a full member, though the Paraguayan Congress has yet to approve Venezuela’s entry. In December 2006, Bolivia expressed its intention to join Mercosur as a full member, but critics say that its accession would politicize the union unnecessarily.

Recent events do not bode well for the future of Mercosur. In 2006, Mercosur’s internal dispute resolution process proved unable to resolve a dispute between Argentina and Uruguay over whether to allow European companies to construct two paper mills along the river that demarcates their border. At the same time, Uruguay diversified its trade with the United States and even threatened to withdraw from Mercosur, arguing that it seems to serve only the needs of Argentina and Brazil. Furthermore, Mercosur has not addressed trade asymmetries among its members, resolved the issue of double tariffs on some imports from outside the region, or drafted a common customs code, leaving some analysts to believe it has become a forum for foreign policy posturing. Some within the Brazilian government and private sector believe Brazil has outgrown Mercosur. These thoughts have only been reinforced by recent talks between Brazil and the European Union concerning the possibility of a bilateral trade deal.<sup>35</sup>

In addition to trying to expand its regional profile through established political and economic channels, Brazilian government and business officials have worked together to expand the country’s commercial interests in the region. Some of those efforts have been more successful than others. One initiative has involved the use of so-called “ethanol diplomacy.” Brazil has sought to reassert regional leadership vis-à-vis oil-rich Venezuela by signing bio-fuels partnership agreements with countries that would otherwise be dependent on expensive oil imports.<sup>36</sup> A not-so-successful endeavor has involved trying to use Petrobras’ investments in Bolivia to influence the populist government of Evo Morales. Even though Petrobras had made extensive investments in Bolivia, the Lula government was caught off guard by Morales’s May 2006 nationalization of his country’s natural gas industry. Although President Lula has since acceded to several of Morales’s demands—including cutting tariffs for Bolivian exports to Brazil, stepping up

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<sup>34</sup> For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>35</sup> “Deathknell Sounds,” *Latin American Regional Report*, January 2009.

<sup>36</sup> “Chávez, Lula Promote Competing Visions,” *Miami Herald*, August 10, 2007.

investments in Bolivia, and maintaining the level of Brazil's daily gas imports from Bolivia—he has also taken a number of steps to make Brazil less reliant on Bolivian natural gas.<sup>37</sup>

Brazil's political, business, and military ventures are complemented by the country's trade policy. In Brazil, the Ministry of Foreign Relations continues to dominate trade policy, causing the country's commercial interests to be (at times) subsumed by a larger foreign policy goal, namely, enhancing Brazil's influence in Latin America and the world.<sup>38</sup> For example, while concluding meaningful trade agreements with developed economies (such as the United States and the European Union) would probably be beneficial to Brazil's long-term economic self-interest, the Brazilian government has instead prioritized its leadership role within Mercosur and expanded trade ties with countries in Africa, Asia and the Middle East.

Some analysts assert that these “south-south” initiatives have enhanced Brazil's international profile, but others have noted that they have yielded few concrete results for the country, and that they have come at the expense of Brazil-U.S. relations. Roberto Abdenur, the former Brazilian Ambassador to Washington, criticized the “south-south” approach of the Brazilian Foreign Ministry for indoctrinating Brazilian diplomats with “anti-imperialist” and “anti-American” attitudes.<sup>39</sup>

## Relations with the United States

Currently, relations between the United States and Brazil may be characterized as friendly. The United States has increasingly regarded Brazil as a significant power, especially in its role as a stabilizing force in Latin America. U.S. officials tend to describe Brazil as a friendly country, similar to Chile, governed by a moderate leftist government. They assert that the United States seeks to increase cooperation with moderate leftist governments in Latin America in order to ease mounting tensions among the countries in South America, and to deal with populist governments in the region. Brazil under President Lula has helped diffuse potential political crises in Venezuela, Ecuador, and Bolivia, and supported Colombia's ongoing struggle against terrorist organizations and drug traffickers. Brazil is also commanding the U.N. stabilization force in Haiti.

Although Brazil and the United States share common goals for regional stability, Brazil's independent approach to foreign policy has led to periodic disputes with the United States on trade and political issues, including how (and whether) to create a Free Trade Area of the Americas (FTAA) and Brazil's vocal opposition to the war in Iraq and the U.S. embargo of Cuba. Despite these disagreements, Brazil and the United States have worked closely on a wide range of bilateral and regional issues. Brazil-U.S. cooperation has increased in recent years, as reflected in the continuing high-level contacts between the two governments, particularly on energy issues. Currently at least ten bilateral mechanisms are in place through which U.S. and Brazilian government and business leaders interface on issues of shared concern.

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<sup>37</sup> “Bolivia's Populism Steps on Brazil,” *Christian Science Monitor*, May 8, 2006; “Brazil May Pay a Price for Generous Deal on Gas,” *Financial Times*, February 22, 2007; “Brazil Seeks to Lure Bolivia Away from Venezuela,” *Reuters*, December 13, 2007; “New chapter in gas dispute with Bolivia,” *Latin News Daily*, March 30, 2009.

<sup>38</sup> See CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J. F. Hornbeck.

<sup>39</sup> Otávio Cabral, “Nem na Ditadura,” *Veja*, February 7, 2007.

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. Brazil received \$15.3 million in U.S. aid in FY2008, will likely receive \$21.5 million in FY2009, and would receive \$11.8 million under the Obama Administration's request for FY2010. U.S. assistance priorities in Brazil include supporting environmental programs and the strengthening of local capacity to address threats to the Amazon, promoting renewable energy and energy efficiency to mitigate climate change, strengthening the professionalism and peacekeeping capabilities of the Brazilian military, and reducing the transmission of communicable diseases.<sup>40</sup>

## **Selected Issues in U.S.-Brazil Relations**

The Bush Administration came to view Brazil as a strong partner whose cooperation should be sought in order to solve regional and global problems and the Obama Administration appears to be view Brazil in a similar light. Current issues of concern to both Brazil and the United States include counternarcotics and counterterrorism efforts, energy security, trade, human rights, the fight against HIV/AIDS, and the environment.

### **Counternarcotics**

Brazil is not a significant drug producing country, but is a major conduit for the transit of cocaine, marijuana, and some heroin from neighboring Andean countries destined for Europe and, to a lesser extent, the United States. Brazil has also become the second largest consumer (after the United States) of cocaine in the Western Hemisphere. The Bush Administration included Brazil on a list of major drug-producing or drug-transit countries.<sup>41</sup> Brazil received \$1 million in U.S. counternarcotics assistance in FY2008, will likely receive \$1 million in FY2009, and would receive \$1 million again in 2010 under the Obama Administration's request. Counternarcotics assistance is used to strengthen Brazil's interdiction capabilities and provide law enforcement training.<sup>42</sup>

In recent years, Brazil has cooperated extensively with neighboring countries in counternarcotics activities and implemented a law permitting the shooting down of civilian aircraft (with adequate safeguards) suspected of being engaged in the trafficking of illicit narcotics. Brazil has also constructed a \$1.4 billion sensor and radar project called the Amazon Vigilance System (SIVAM from its acronym in Portuguese) in an attempt to control illicit activity in its Amazon region. In 2008, Brazil's federal police captured 18 metric tons of cocaine, 514 kilograms of cocaine base, 430 kilograms of crack cocaine, 182 metric tons of marijuana, 12 kilograms of heroin, 125,706 dosage units of ecstasy, and 95,653 dosage units of LSD. In 2007, Brazilian police arrested a major Colombian-born drug trafficker and leader of the Norte del Valle cartel. He was extradited to the United States in August 2008 to face charges of drug trafficking, money laundering, and murder. Brazil's federal police have since worked with Colombian authorities and the U.S. Drug Enforcement Administration (DEA) to seize more than \$700 million in cash from the cartel.<sup>43</sup>

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<sup>40</sup> U.S. State Department, FY2010 Congressional Budget Justification for Foreign Operations, May 29, 2009.

<sup>41</sup> Memorandum for the Secretary of State, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2009," September 15, 2008, Presidential Determination No. 2008-28.

<sup>42</sup> U.S. State Department, FY2010 Congressional Budget Justification for Foreign Operations, May 29, 2009.

<sup>43</sup> U.S. Department of State, International Narcotics Control Strategy Report, February 27, 2009.

## Counterterrorism and the Tri-Border Area<sup>44</sup>

The Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay has long been used for arms smuggling, money laundering, and other illicit purposes. According to the 2009 State Department Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds through illicit activities and from sympathizers in the sizable Middle Eastern communities in the region. Indeed, reports have indicated that Hezbollah earns over \$10 million a year from criminal activities in the TBA.<sup>45</sup> Although it has been reported that al Qaeda's operations chief Khalid Shaikh Mohammed lived in the Brazilian TBA city of Foz de Iguazu in 1995 and Brazilian authorities arrested Ali al-Mahdi Ibrahim—who was wanted by Egypt for his alleged role in the 1997 massacre of tourists at Luxor—in the TBA in 2003, the State Department report states that there have been no corroborated reports that any Islamic groups have an operational presence in the area.<sup>46</sup> The United States joined with the countries of the TBA in the “3+1 Group on Tri-Border Area Security” in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

The United States has also worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos. While the State Department Country Reports on Terrorism lauded the Brazilian government as a “cooperative partner in countering terrorism,” it also noted that Brazil's failure to strengthen its legal counterterrorism framework by passing long-delayed anti-money laundering and counterterrorism bills “significantly undermined its overall commitment to combating terrorism.”<sup>47</sup>

In January 2009, the Western Hemisphere Counterterrorism and Nonproliferation Act of 2009 (H.R. 375, Ros-Lehtinen) was introduced in the House. Among other provisions, the bill calls on the U.S. Secretary of State to negotiate with Brazil, Argentina, and Paraguay to establish a Regional Coordination Center (RCC) in the TBA to serve as a joint operational facility dedicated to coordinating efforts, capacity, and intelligence to counter current and emerging threats and prevent the proliferation of nuclear, chemical, and biological weapons. A similar provision can be found in the Foreign Relations Authorization and Reform Act for Fiscal Years 2010 and 2011 (H.R. 2475, Ros-Lehtinen), which was introduced in the House in May 2009.

## Energy Security

In the last few years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through increased domestic production and the development of alternative energy resources. Currently, over 85% of Brazilian electricity is generated through hydropower.<sup>48</sup> At the same time, Brazil has attained the ability to produce large

<sup>44</sup> For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

<sup>45</sup> Alain Rodier, “Notes D'Actualité N° 168: Les Trafics de Drogue du Hezbollah en Amérique Latine,” *Centre Français de Recherche sur le Renseignement*, April 14, 2009.

<sup>46</sup> “Latin America: A Safe Haven for Al Qaeda?” *STRATFOR*, September 4, 2003; U.S. Department of State, Office of the Coordinator for Counterterrorism, “Country Reports on Terrorism,” April 30, 2009.

<sup>47</sup> *Ibid.*

<sup>48</sup> “Brazil: Hydrocarbons potential poses major challenges,” *Oxford Analytica*, November 20, 2007.

amounts of enriched uranium as part of its nuclear energy program. More recently, Brazil's state-run oil company, Petrobras, a leader in deep-water oil drilling, has discovered what may be the world's largest oil field find in 25 years.<sup>49</sup>

## Oil

On September 2, 2008, President Lula celebrated the first oil output to be extracted from the new offshore fields. The discovery of the Tupi field in November 2007, located in the Santos Basin 350 miles off the coast of Rio de Janeiro, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The field alone may hold up to 50 billion barrels of oil. The Brazilian government is considering new measures that may pave the way for a heavy state hand in the country's energy markets, such as the creation of a new 100% state-owned company to manage the exploration blocks. This has raised concerns among some foreign investors.<sup>50</sup> A number of analysts have also questioned the feasibility of developing the reserves at this time given the global financial crisis and recent declines in oil prices. Since the reserves are in the so-called "pre-salt" layer, drilling will be difficult and costly. While Petrobras maintains that the reserves are economically viable as long as the price of crude oil remains above \$35 per barrel, some analysts believe development will be difficult to finance with oil anywhere below \$70 per barrel.<sup>51</sup> Brazil has announced that it will need \$270 billion in investment over the next 10 years to develop the reserves.<sup>52</sup>

## Ethanol and Other Biofuels<sup>53</sup>

Brazil stands out as an example of a country that has become a net exporter of energy, partially by increasing its use and production of ethanol. On March 9, 2007, the United States and Brazil, the world's two largest ethanol producing countries, signed a Memorandum of Understanding to promote greater cooperation on ethanol and biofuels in the Western Hemisphere. The agreement involves: (1) technology-sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and, (3) multilateral efforts to advance the global development of biofuels. The first countries to receive U.S.-Brazilian assistance were the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis.<sup>54</sup> On October 9, 2007, the House passed H.Res. 651 (Engel), recognizing the warm friendship and expanding relationship that exists between the United States and Brazil and the importance of U.S.-Brazil biofuels cooperation.

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. On

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<sup>49</sup> "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

<sup>50</sup> "Brazil's Golden Times Start to Roll," *LatinNews Daily*, September 3, 2008; "Hydrocarbons Potential Poses Major Challenges," *Oxford Analytica*, November, 20, 2007.

<sup>51</sup> "Brazil: Petrobras euphoria fades with oil price," *Oxford Analytica*, December 11, 2008.

<sup>52</sup> "Brazil needs \$270 bln over 10-yr for deepwater oil," *Reuters*, March 19, 2009.

<sup>53</sup> For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

<sup>54</sup> "Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels," U.S. Department of State, Office of the Spokesman, March 9, 2007.

November 20, 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.<sup>55</sup> The United States and Brazil are also working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform. In March 2009, the Western Hemisphere Energy Compact (S. 587, Lugar) was introduced. The legislation would provide \$6 million in FY2010 to expand U.S.-Brazil biofuels cooperation.<sup>56</sup>

Despite this progress, several potential obstacles to increased U.S.-Brazil cooperation on biofuels exist, including current U.S. tariffs on most Brazilian ethanol imports. The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.<sup>57</sup> Some Brazilian ethanol is processed at plants in the Caribbean for duty-free entry into the United States, but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff. Several bills were introduced in the 110<sup>th</sup> Congress that would have eliminated or adjusted the ethanol tariff.

## **Nuclear Energy**

Between the mid-1970s and the mid-1980s, Brazil sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. In 1991, Brazil and Argentina reached an agreement to use nuclear energy for peaceful purposes only. Although Brazil subsequently joined the Nuclear Nonproliferation Treaty (NPT) and a number of other multilateral nonproliferation regimes, some international observers became concerned when Brazil commissioned a uranium enrichment plant in 2004 and refused to give International Atomic Energy Agency (IAEA) inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.<sup>58</sup>

President Lula has stated Brazil's intention to spend \$540 million over the next eight years to build a third nuclear power plant and a nuclear-powered submarine. In September 2008, the Brazilian Minister for Energy and Mining announced that he would like Brazil to build 60 new nuclear energy plants over the next 50 years. He claimed this expansion of nuclear power is the

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<sup>55</sup> "Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development," U.S. Department of State, Office of the Spokesman, November 20, 2008.

<sup>56</sup> Senator Lugar had introduced a similar measure in the 110<sup>th</sup> Congress, S. 1007, reported out of the Senate Foreign Relations Committee on September 23, 2008.

<sup>57</sup> For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.

<sup>58</sup> "New Round of Nuclear Enrichment Scare Stories," *Latin American Weekly Report*, February 12, 2006; Bernard Aronson, "Brazil's Chance to Lead on Nuclear Containment," *Wall Street Journal*, March 18, 2005; Sharon Squassoni and David Fite, "Brazil as Litmus Test: Resende and Restrictions on Uranium Enrichment," *Arms Control Today*, October 2005.

only way that Brazil will be able to meet the energy needs of its growing population while avoiding massive carbon emissions through the burning of fossil fuels.<sup>59</sup>

## **Trade Issues**

Trade issues are central to the bilateral relationship between Brazil and the United States, with both countries being heavily involved in subregional, regional, and global trade talks. Brazil has sought to strengthen Mercosur and to establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosur-European Union free trade agreement. The United States has been actively involved in the Doha negotiations and, until late 2005, pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA). Since negotiations for the FTAA have been largely abandoned, the United States has continued to sign bilateral and subregional agreements with countries throughout Latin America. Bilateral trade between the United States and Brazil totaled \$63.4 billion in 2008, with U.S. exports to Brazil increasing 34% to \$32.9 billion and U.S. imports from Brazil increasing 19% to \$30.5 billion.<sup>60</sup>

## **Doha Round of the World Trade Organization Talks**<sup>61</sup>

Brazil has had a leading role in the Doha round of the World Trade Organization (WTO) talks. In 2003, Brazil led the G-20 group of developing countries' efforts to insist that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, but formal talks were suspended indefinitely in July 2006 after key negotiating groups failed to break a deadlock on the issue of agricultural tariffs and subsidies. In June 2007, negotiators from India and Brazil walked out of a round of informal talks with representatives from the United States and the European Union (EU), refusing to open their markets further unless U.S. and EU subsidies were substantially reduced. Trade ministers again failed to reach a breakthrough at an eight day negotiating ministerial held in July 2008, a non-agricultural market access (NAMA) negotiating group meeting in October 2008, and a G-20 meeting in November 2008.<sup>62</sup>

## **World Trade Organization Disputes**

Brazil won a WTO dispute settlement case against U.S. cotton subsidies in September 2004, which the United States appealed, but Brazil's position was reaffirmed by the WTO appellate body in March 2005. In keeping with the requirement that the United States modify its policies or negotiate a mutually satisfactory settlement with Brazil, the Bush Administration in early July 2005 asked Congress to modify the cotton subsidy program and Brazil agreed to temporarily suspend retaliatory action. In December 2007, a WTO dispute panel ruled in support of Brazil's claim that the United States is not moving quickly enough to comply with the 2005 ruling that it

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<sup>59</sup> "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report*, November 2008.

<sup>60</sup> U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, 2009.

<sup>61</sup> For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

<sup>62</sup> "Uncertainty Lies Ahead for WTO," *Oxford Analytica*. July 31, 2008; "WTO Members to Suspend Effort to Reach Multilateral Deal on Sectorals, Chair Says," *BNA: International Trade Daily*, October 23, 2008; "Lamy: Lack of Political Will Blocking Doha Deal, But Cotton Doable," *Inside U.S. Trade*, December 19, 2008.

should remove some of its cotton subsidies.<sup>63</sup> Brazil has argued that it has the right to impose up to \$2.5 billion in annual trade sanctions against U.S. imports as a result of this noncompliance. The United States maintains that Brazil is “consistently overstating” the amount of compensation it is entitled to and that retaliation should not exceed \$22.8 million per year.<sup>64</sup>

In a separate decision, in December 2007 the WTO decided to investigate Brazil and Canada’s claims that U.S. agriculture support programs have exceeded allowed levels.<sup>65</sup> Brazil has asserted that the United States has exceeded its annual commitment levels for the total aggregate measure of support (AMS) in each of the years 1999, 2000, 2001, 2002, 2004, and 2005. It also has complained that the U.S. export credit guarantee program operates as a WTO-legal export subsidy. Canada is pursuing a similar case against the United States.

### **Generalized System of Preferences**<sup>66</sup>

The Generalized System of Preferences (GSP) provides duty-free tariff treatment to certain products imported from developing countries. In the 109<sup>th</sup> Congress, renewal of the preference (as established by Title V of the Trade Act of 1974) was somewhat controversial, owing, in part, to concerns of some Members that a number of the more advanced developing countries (such as Brazil and India) were contributing to the impasse in the Doha round of WTO talks. Compromise language worked out between the House and Senate extended GSP for two years for all countries, while asserting that the President “should” revoke “competitive need limitation (CNL)” waivers for products from certain countries, based on the criteria specified. In June 2007, the Bush Administration decided to revoke the CNL waivers on Brazilian brake parts and ferrozirconium.<sup>67</sup> The 110<sup>th</sup> Congress extended GSP until December 31, 2009 with P.L. 110-436.

### **Intellectual Property Rights**

In the last few years, Brazil has taken steps to improve its record on protecting intellectual property rights (IPR). The Brazilian government has created a national action plan to address piracy and intellectual property crimes, which has included increased police actions. Brazil and the United States continue to work together to address intellectual property issues, primarily through the U.S.-Brazil Bilateral Consultative Mechanism and the U.S.-Brazil Commercial Dialogue. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant IPR violations to the Watch List in 2007. Brazil remained on the Watch List in 2008. In order to build on progress that has been made, USTR recommends that Brazil should consider strengthening its IPR enforcement legislation, more vigorously addressing book and internet piracy, and signing the World Intellectual Property Organization Internet Treaties.<sup>68</sup> The U.S. government has also expressed

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<sup>63</sup> “WTO Tells U.S. to Act on Illegal Cotton Subsidies,” *Financial Times*, December 19, 2007. For more information, see CRS Report RL32571, *Brazil’s WTO Case Against the U.S. Cotton Program*, by Randy Schnepf.

<sup>64</sup> “U.S. Contests ‘Exaggerated’ Brazilian Claim For Compensation in Cotton Dispute at WTO,” *BNA International Trade Daily*, March 3, 2009.

<sup>65</sup> See CRS Report RL34351, *Brazil’s and Canada’s WTO Cases Against U.S. Agricultural Support*, by Randy Schnepf.

<sup>66</sup> This section was drawn from CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>67</sup> “USTR Revokes GSP Waivers for India, Brazil Despite Rangel Objections,” *Inside U.S. Trade*, June 29, 2007.

<sup>68</sup> USTR, *Special 301 Report*, April 2008.

concerns about Brazil's periodic threats to issue compulsory licenses for patented pharmaceutical products. In May 2007, Brazil broke a patent on a drug used to treat HIV/AIDs that is produced by Merck & Co. in order to import a cheaper version of that drug from India.<sup>69</sup>

## Human Rights

The U.S. State Department's Country Report on Human Rights on Brazil covering 2008 states that while "the federal government generally respected the human rights of its citizens ... there continued to be numerous, serious abuses, and the records of several state governments were poor." Three human rights issues of particular concern include crime and human rights abuses by police, race and discrimination, and trafficking in persons.

### Violent Crime and Human Rights Abuses by Police

Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening citizens' security in Brazil. Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. Violence has traditionally been linked to turf wars being waged between rival drug gangs for control of the drug industry or to clashes between drug gangs and police officials, who have been criticized for the brutal manner in which they have responded to the gang violence. Prison conditions in Brazil range from "poor to extremely harsh and life threatening," and the countrywide prison system, which housed more than 400,000 inmates in 2007, had almost double the system's designed capacity.<sup>70</sup>

The current weaknesses in Brazil's criminal justice system became dramatically apparent in 2006, when gangs launched violent attacks that destabilized the cities of São Paulo and Rio de Janeiro. In May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (PCC), paralyzed the city of São Paulo for several days.<sup>71</sup> Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths.<sup>72</sup> In late December 2006, drug gangs torched buses and attacked police stations in Rio de Janeiro, leaving some 25 dead. Recent clashes have also involved vigilante militias, composed of off-duty police and prison guards, which are now charging citizens to "protect" them from the drug gangs. Rio de Janeiro officials have identified the militias as criminal groups but have thus far been unable to contain them.<sup>73</sup>

Human rights groups have identified extrajudicial killings by police and prison authorities as Brazil's most pressing human rights problem.<sup>74</sup> Upon completing a November 2007 visit to

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<sup>69</sup> "Haggling Saves Brazil \$1 Billion on AIDS Drugs," *Reuters News*, November 13, 2007.

<sup>70</sup> U.S. Department of State, *Country Reports on Human Rights Practices 2008: Brazil*, February 25, 2009.

<sup>71</sup> Formed in 1993 to protest the country's poor prison conditions, the PCC now has at least 6,000 dues-paying members and reportedly exerts control over more than 140,000 prisoners in the São Paulo prison system. Stephen Hanson, "Brazil's Powerful Prison Gang," *Council on Foreign Relations*, September 26, 2006.

<sup>72</sup> "Brazil: Battle of São Paulo Leaves a Disquieting Balance," *Latin American Weekly Report*, May 23, 2006; "Police are Criticized in Wave of Gang Violence in Brazil," *New York Times*, May 30, 2006; "Attacks in São Paulo Prompt Fears of Renewed Gang Offensive," *EFE*, February 7, 2007.

<sup>73</sup> "Troops Alone Will Not Solve State of Violence," *Latin American Brazil & Southern Cone Report*, January 2007; "Brazilian Slums Face a New Problem: Vigilante Militias," *Christian Science Monitor*, February 8, 2007.

<sup>74</sup> Brazilian authorities report that, partially in response to violent gang attacks, São Paulo state police killed 533 (continued...)

Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to “kill with impunity in the name of security.”<sup>75</sup> Indeed, Rio de Janeiro police killed nearly four people per day in 2008, a 6% increase from 2007. Some have defended these strong-arm tactics, crediting them for a 10% decline in Rio de Janeiro’s murder rate.<sup>76</sup>

Many analysts have asserted that Brazilian politicians at all levels of government have failed to devote the resources and political will necessary to confront the country’s serious public security problems. In particular, they maintain that there has been a lack of coordination between federal, state, and local officials, and that political calculations have often prevented state governments, which have been largely ineffective in responding to the recent violence, from seeking much-needed assistance from the federal government. President Lula did not launch any major anti-crime initiatives during his first term, but announced a \$3 billion anti-crime initiative in August 2007 that combines police reform, prison construction, and other public security measures with significant investments in prevention, and rehabilitation programs.<sup>77</sup>

### Race and Discrimination <sup>78</sup>

People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country’s population, but constitute 64% of the poor and 69% of the extreme poor.<sup>79</sup> During the Cardoso administration, the Brazilian government began to collect better official statistics on Afro-Brazilians. These statistics found significant education, health, and wage disparities between Afro-Brazilians and Brazil’s general population.

Brazil now has the most extensive anti-discrimination legislation geared towards Afro-descendants of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas in order to increase minority representation in government service. Since 2002, several state universities in Brazil have enacted quotas setting aside admission slots for black students. Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.<sup>80</sup> In 2003, Brazil became the first country in the world to establish a Special Secretariat with a ministerial rank to manage Racial Equity Promotion Policies. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that most universities have preferred not to implement quota systems, and that the Special Secretariat lacks the funding, staff, and clout necessary to advance its initiatives.<sup>81</sup>

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(...continued)

alleged criminals in 2006 compared to 300 in 2005. See “Police Killings of Suspects Up in Brazil,” *Associated Press*, February 1, 2007. President Lula has taken some steps to combat police brutality in Brazil.

<sup>75</sup> “Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil,” *States News Service*, November 15, 2007.

<sup>76</sup> “Police raid fatalities in Rio revive debate over policy,” *Latin American Security & Strategic Review*, February 2009.

<sup>77</sup> “Brazil: Public Security Program Finally Launched,” *Latin American Weekly Report*, August 23, 2007.

<sup>78</sup> For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke and June S. Beittel.

<sup>79</sup> Ricard Henriques, “Desigualdade racial no Brasil,” Brasilia: Instituto de Pesquisa Econômica Aplicada (IPEA), 2001

<sup>80</sup> Livio Sansone, “Anti-Racism in Brazil,” *NACLA Report on the Americas*, September 1, 2004.

<sup>81</sup> Dayanne Mikevis and Matthew Flynn, “Brazil’s Civil Rights Activists Achieving Overdue Policy Reform,” *Citizen Action in the Americas*, No. 17, April 2005.

Despite these limitations, Brazil has taken a leadership role in advancing issues of race and discrimination within the Organization of American States, where it is leading the drafting of an Inter-American Convention for the Prevention of Racism and All Forms of Discrimination and Intolerance. In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan Against Racial Discrimination to bilaterally promote racial equality in areas such as education, health, housing, and labor.<sup>82</sup> On September 9, 2008, the House passed H.Res. 1254 (Engel), expressing congressional support for the U.S.-Brazil anti-discrimination plan.

### Trafficking in Persons for Forced Labor<sup>83</sup>

Brazil is a source, transit, and destination country for people, especially women and children, trafficked for forced labor or sexual exploitation. In the U.S. State Department's *Trafficking in Persons (TIP) report, June 2008*, Brazil was listed as a Tier 2 country. The report recognizes the Brazilian government's increased efforts to rescue victims of slave labor and provide greater services to victims, but cites only limited progress in bringing traffickers to justice and effectively penalizing those who exploit forced labor.<sup>84</sup>

In Brazil, between 25,000 and 100,000 men have reportedly been recruited to labor in slave-like conditions, many in the country's agribusiness industry. Roughly half of the close to 6,000 people freed from slave labor in 2007 were found working in sugarcane properties. Some have alleged that there are some 1,000 charcoal-making camps in the Brazilian Amazon that are using slave labor to produce pig iron, a key ingredient of steel, that is then purchased by major companies in the United States. Child prostitution, child sex tourism, and the trafficking of foreign workers into forced factory labor are also significant problems in Brazil.<sup>85</sup>

### Goldman Custody Case<sup>86</sup>

Over the past several years, a high-profile child custody case has focused attention on Brazil's noncompliance with the Hague Convention on the Civil Aspects of International Child Abduction. In June 2004, Sean Goldman was taken to Brazil by his mother, Bruna Bianchi Carneiro Ribeiro Goldman, a Brazilian native. Ms. Bianchi then informed her husband David

<sup>82</sup> "Partnering with U.S. to Fight Racial Bias," *Miami Herald*, September 8, 2008.

<sup>83</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

<sup>84</sup> Since 2001, the U.S. State Department has evaluated foreign governments' efforts to combat trafficking in persons in its annual Trafficking in Persons (TIP) reports, which are issued each June. Countries are grouped into four categories according to the U.S. assessment of efforts they are making to combat trafficking. Tier 1 is made up of countries deemed by the State Department to have a serious trafficking problem but fully complying with the minimum standards for the elimination of trafficking. Those standards are defined in the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) as amended. Tier 2 is composed of governments not fully complying with those standards but which are seen as making significant efforts to comply. Tier 2 Watch List, first added as a category in the 2004 report, is made up of countries that are on the border between Tier 2 and Tier 3. Tier 3 includes those countries whose governments the State Department deems as not fully complying with TVPA's anti-TIP standards and not making significant efforts to do so. Tier 3 countries have been made subject to U.S. sanctions since 2003.

<sup>85</sup> Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006; U.S. Department of State, *Trafficking in Persons Report 2008*, June 4, 2008.

<sup>86</sup> For more information on international parental child abductions, see CRS Report RS21261, *International Parental Child Abductions*, by Alison M. Smith.

Goldman—a U.S. citizen—that their marriage was over, she would not be returning to the United States, and she wanted full custody of Sean. In August 2004, the Superior Court of New Jersey ruled that Ms. Bianchi’s continued retention of Sean constituted parental kidnapping under U.S. law and awarded Mr. Goldman custody.<sup>87</sup> In September 2004, Mr. Goldman filed an application for Sean’s return under the 1980 Hague Convention on the Civil Aspects of International Child Abduction, to which both the United States and Brazil are party and which entered into force between the countries on December 1, 2003. Under the Convention, a child removed from a country in violation of a parent’s custodial rights should be promptly returned to the place of his or her habitual residence. The courts of the country of the child’s residence can then resolve the custody dispute.<sup>88</sup> In 2005, a Brazilian federal judge ruled that although Sean had been moved to Brazil wrongfully, he should remain in Brazil because he had become settled in his new location.<sup>89</sup> In August 2008, Ms. Bianchi died and a Brazilian state court judge granted temporary custody of Sean to the man Ms. Bianchi married following her move to Brazil, Joao Paulo Lins e Silva.<sup>90</sup> Mr. Goldman appealed the ruling, and on June 2, 2009, a Brazilian federal judge ruled that Brazil must respect the Hague Convention and ordered that Sean be returned to his father. Just a day later, however, a Brazilian Supreme Court justice stayed the order in accordance with a request from the Brazilian Progressive Party, which argued that sending the child to the United States would be unconstitutional.<sup>91</sup> The Brazilian Supreme Court must now hear the case.

The U.S. State Department’s *Report on Compliance with the Hague Convention on the Civil Aspects of International Child Abduction* cites Brazil for patterns of noncompliance with the Convention. It faults Brazilian courts for treating Convention cases as custody decisions, demonstrating bias toward Brazilian citizens, and making the judicial process excessively lengthy. In February 2009, Secretary of State Clinton brought up the Goldman case in her meeting with Brazilian Foreign Minister Celso Amorim in Washington, and in March 2009, President Obama raised the matter in his meeting with President Lula. Both Brazilian leaders maintain that the Goldman case will be settled by the country’s independent judiciary.<sup>92</sup> There are currently some 50 unresolved cases of children being retained in Brazil after having been wrongly removed from the United States.<sup>93</sup> On March 11, 2009, the House unanimously passed H.Res. 125 (C. Smith), calling on Brazil to meet its obligations under the Hague Convention to return Sean Goldman to his father in the United States. On March 24, 2009, the Senate approved S.Res. 37 (Lautenberg) by unanimous consent, calling on Brazil to comply with the requirements of the Convention on the Civil Aspects of International Child Abduction and to assist in the safe return of Sean Goldman to his father in the United States.

<sup>87</sup> *David G. Goldman V. Bruna B. Goldman*, FD-13-395-05C (Superior Court of New Jersey 2004).

<sup>88</sup> Hague Conference on Private International Law: Final Act, Draft Conventions on Civil Aspects of International Child Abduction and on International Access to Justice, Articles on the Law Applicable to Certain Consumer Sales, and Recommendations and Decisions of the Conference, Oct. 25, 1980, 19 I.L.M. 1501 (1980).

<sup>89</sup> Under Article 12 of the Hague Convention, a judge may refuse to return a child if the child has become settled in his or her new home and more than one year has passed from the date of the child’s removal.

<sup>90</sup> Joshua Partlow, “Fight for 8-Year-Old Colors Relationship Between U.S., Brazil,” *Washington Post Foreign Service*, March 13, 2009; Kirk Semple, “Court Battle Over a Child Strains Ties in 2 Nations,” *New York Times*, February 25, 2009.

<sup>91</sup> Alexei Barrionuevo, “Judge in Brazil Stays Ruling Ordering Return of Boy to U.S.,” *New York Times*, June 3, 2009.

<sup>92</sup> Joshua Partlow, “Fight for 8-Year-Old Colors Relationship Between U.S., Brazil,” *Washington Post Foreign Service*, March 13, 2009; Darlene Superville, “Obama, Brazil leader focus on economy, energy,” *Associated Press*, March 14, 2009.

<sup>93</sup> Kirk Semple, “Court Battle Over a Child Strains Ties in 2 Nations,” *New York Times*, February 25, 2009.

## HIV/AIDS

Internationally recognized as having one of the world's most successful HIV/AIDS program, Brazil has made the fight against the spread of HIV/AIDS a national priority. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral (ART) drugs on a limited basis by 1991, and later guaranteeing universal access by 1996. Currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government. The incidence of HIV/AIDS in Brazil has stabilized since 1997, and universal free access to ART has increased average survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996.<sup>94</sup> HIV prevalence has been stable at 0.5% for the general population in Brazil since 2000, so most government prevention efforts are now targeted at high-risk groups where prevalence rates are still above 5%.

Brazil's decision to develop generic ART drugs to treat HIV/AIDS under the compulsory licensing provision of its patent law led to a subsequent 80% drop in the cost of treatment. That decision brought Brazil into conflict with the United States and the international pharmaceutical industry. In May 2001, the United States submitted a complaint to the WTO, which was later withdrawn, that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and prevented companies from developing new products in Brazil. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In August 2003, a WTO decision temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). That temporary waiver became permanent in late 2005.<sup>95</sup>

Brazil currently manufactures older ART drugs locally both for domestic consumption and for export to several African countries but has to import newer medicines. According to Brazil's Ministry of Health, tough negotiations with pharmaceutical companies have resulted in \$1.1 billion savings for the country's HIV/AIDS program.

## Amazon Conservation

The Amazon basin spans the borders of eight countries and is the most biodiverse tract of tropical rainforest in the world. It holds 20% of the Earth's fresh water and 10% of all known species. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.<sup>96</sup>

The Brazilian Amazon was largely undeveloped until the 1960s, when the military government began subsidizing the settlement and development of the region as a matter of national security. Over the last 40 years, the human population has grown from 4 million to over 20 million and the

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<sup>94</sup> Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

<sup>95</sup> Mary Anastasia O'Grady, *Wall Street Journal*, December 16, 2005.

<sup>96</sup> Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008; "Amazon: World's largest tropical rainforest and river basin," *World Wildlife Fund*, 2009.

resulting settlements, roads, logging, cattle ranching, and subsistence and commercial agriculture have led to approximately 15% of the Brazilian Amazon being deforested.<sup>97</sup> In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.<sup>98</sup> Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal. Deforestation rates declined following the peak year of 2004, but in November 2008, the National Institute for Space Research (INPE) announced a new increase in the rate of deforestation, with almost 12,000 square kilometers being cleared between July 2007 and July 2008.<sup>99</sup>

## Domestic Efforts

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions, the Lula Administration has expanded protected areas and implemented new environmental policies.<sup>100</sup> During its first five years in office, the Lula Administration created 62 new natural reserves, bringing the total area of the Brazilian Amazon protected by law to 280,000 square kilometers, the fourth largest percentage of protected area in relation to territory in the world.<sup>101</sup> President Lula has also signed a Public Forest Management Law that encourages sustainable development, placed a moratorium on soybean plantings and cattle ranching in the Amazon, and announced a plan to reduce the rate of Amazon deforestation by half to 5,850 square kilometers per year by 2017. Brazil plans to meet this goal by increasing federal patrols of forested areas, replanting 55,000 square kilometers of forest, and financing sustainable development projects in areas where the local economy depends on logging.<sup>102</sup> The Lula Administration maintains that these efforts have been successful, highlighting the fact that just 197 square kilometers of the Amazon were deforested between February and April 2009, a 90% reduction from the same period in 2008.<sup>103</sup>

Although some conservation groups have praised President Lula for his Administration's actions, a number of environmentalists—including former Environment Minister Marina Silva and current Environment Minister Carlos Minc—have questioned the Administration's commitment to sustainable development.<sup>104</sup> Critics assert that the Administration favors agricultural interests over conservation and that Brazil's occasional declines in deforestation rates are not the result of the

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<sup>97</sup> Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

<sup>98</sup> Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate their existing lands. After agriculture, pastures grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning will alter the ecosystem sufficiently that forests cannot regenerate.

<sup>99</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>100</sup> "Brazil: The Land Cries for Amazonia," *Latin America Data Base NotiSur*, February 13, 2009.

<sup>101</sup> "Brazil: Government policy for Amazon still ambiguous," *Latin News Weekly Report*, May 22, 2008.

<sup>102</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>103</sup> Raymond Colitt, "Brazil on target in slowing Amazon deforestation," *Reuters*, June 2, 2009.

<sup>104</sup> Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; Ana Paula Paiva, "Brazil environment minister says lacks support," *Reuters*, May 28, 2009.

Lula Administration's initiatives, but correspond to declining global commodity prices that make it less profitable to clear the forests. They point out that deforestation rates only began falling as commodity prices collapsed in late 2008.<sup>105</sup> In order to combat further deforestation, some analysts maintain that the Brazilian government will have to greatly increase the number of people employed to work in protected areas and do more to confront agricultural producers operating within the Amazon.<sup>106</sup>

## Carbon Offsets and Other International Initiatives

The Amazon absorbs nearly two billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change.<sup>107</sup> The Kyoto Protocol—of which Brazil is a signatory—created a Clean Development Mechanism (CDM), which allows emission reduction projects in developing countries to earn certified emission reduction credits (CERs) that can then be traded or sold to industrialized countries to meet their mandated emission reduction targets. Brazil has taken full advantage of the CDM, and is host to 156 of the 1,511 emission reduction projects worldwide. These 156 projects represent 20.1 million CERs, or a reduction of 20.1 million tons of carbon dioxide.<sup>108</sup> The CDM allows for a wide variety of emission reduction projects but in terms of forestry, CERs are only awarded for afforestation and reforestation projects, not forest conservation. As a result, forestry projects account for a very small percentage of the total CERs awarded. A number of industrialized countries that would like to achieve a greater percentage of their mandated emission reductions through carbon offsets have teamed with developing countries with substantial tropical forests to propose widening the CDM to include forest conservation. Brazil has opposed such a plan, arguing it would absolve rich countries from cutting their own emissions.<sup>109</sup> Brazil has supported the rise of voluntary offset markets, however, in which organizations and individuals not subject to mandatory emission reductions can buy carbon offsets to contribute to conservation and clean energy projects.

Brazil believes Amazon conservation should be done through public funding rather than a carbon market. Accordingly, it launched the “Amazon Fund” in August 2008. The fund is intended to attract donations from countries, companies, and non-governmental organizations to assist in Brazil's Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021—and hopes to raise \$1 billion within a year—to support forest conservation, scientific research, and sustainable development. Norway has donated \$140 million to the fund—with a pledge of \$1 billion by 2015—and Germany has contributed \$24.5 million.<sup>110</sup>

USAID environment programs support Amazon conservation through the promotion of proper land-use and encouragement of environmentally-friendly income generation activities for the rural poor. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, which

<sup>105</sup> Raymond Colitt, “Brazil on target in slowing Amazon deforestation,” *Reuters*, June 2, 2009.

<sup>106</sup> *Ibid*; Joshua Partlow, “A Protected Forest's Fast Decline,” *Washington Post*, February 6, 2009.

<sup>107</sup> “Brazil: Global warming risks threaten Amazonia,” *Oxford Analytica*, March 16, 2009.

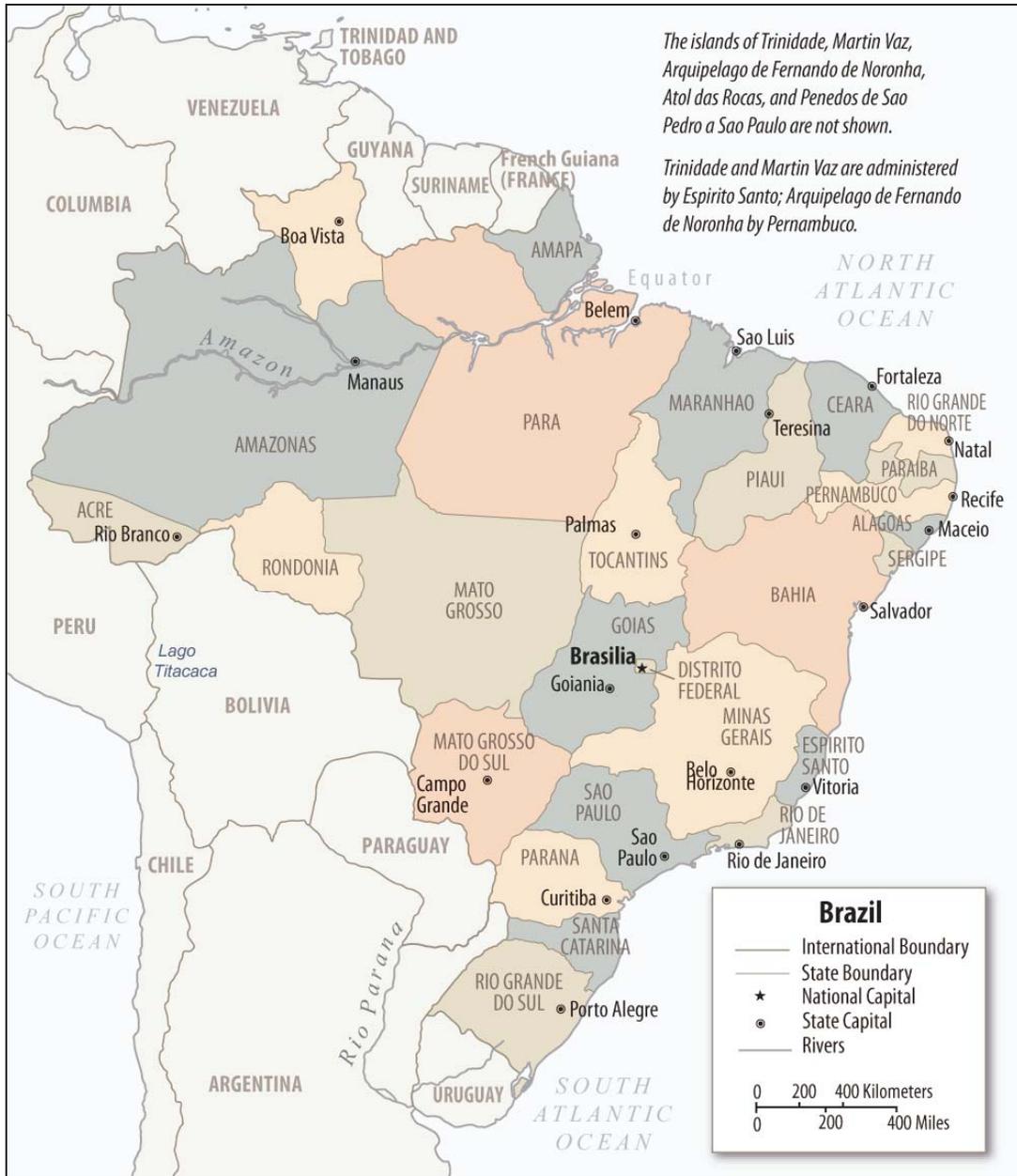
<sup>108</sup> United Nations Framework Convention on Climate Change, “CDM Statistics,” March 2009.

<sup>109</sup> “Rich, poor in dispute over rainforest cash,” *Reuters*, December 4, 2008. For more information on Forest Carbon Markets, see CRS Report RL34560, *Forest Carbon Markets: Potential and Drawbacks*, by Ross W. Gorte and Jonathan L. Ramseur.

<sup>110</sup> “Brazil's Amazon Fund not to suffer from financial crisis; minister,” *Xinhua News Agency*, October 25, 2008; “Germany pledges euro18 million to Amazon fund,” *Associated Press*, December 18, 2008.

supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon’s globally important biodiversity. USAID provided \$5.2 million for environmental programs in Brazil in FY2007 and an estimated \$9.5 million in FY2008. The Joint Explanatory Statement of the Omnibus Appropriations Act for FY2009 (P.L. 111-8) recommends that, in addition to funding for country programs, no less than \$25 million be made available for the Amazon Basin Conservation Initiative, \$10 million of which is directed to activities in the Brazilian Amazon.

**Figure 1. Map of Brazil**



Source: CRS.

## **Author Contact Information**

Clare Ribando Seelke  
Specialist in Latin American Affairs  
cseelke@crs.loc.gov, 7-5229

Peter J. Meyer  
Analyst in Latin American Affairs  
pmeyer@crs.loc.gov, 7-5474