Brazil-U.S. Relations

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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 and violence. Despite President Lula’s personal popularity, many predicted that intra-party rivalries within his fragile governing coalition would make it hard for him to push his agenda through Brazil’s notoriously fractured legislature.

A year into his second term, President Lula still enjoys high approval ratings (65% in December 2007) and is benefitting from a resurgent economy, but his government has been weakened by several corruption scandals. Some analysts predict that ongoing corruption investigations involving President Lula’s PT party may undermine the strength of his second term in office. Others assert that President Lula has thus far been unwilling or unable to use his significant political capital to gain legislative approval for his political agenda. Inaction on much-needed structural reforms could dampen Brazil’s current economic expansion (GDP growth of some 5% in 2007).

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. President Bush visited Brazil on March 9, 2007, and President Lula visited Camp David on March 31. Those presidential visits culminated in the signing of U.S.-Brazil Memorandum of Understanding (MOU) to promote greater ethanol production and use throughout Latin America.

During its second session, the 110th Congress is likely to maintain its recent interest in Brazil’s role as an ethanol producer and in the implementation of the U.S.-Brazil biofuels agreement. Congressional interest may also focus on Brazil’s role in the Doha round of the World Trade Organization (WTO) negotiations and in the resolution of trade disputes between the two countries. In December 2006, Congress continued trade preferences for Brazil under the Generalized System of Preferences (GSP), but set thresholds that may limit trade preferences for some Brazilian exports compared to previous years. Interest in Brazil also centers on its role as a stabilizing force in Latin America, especially with respect to Venezuela, Bolivia, and Haiti. In addition, Brazil’s cooperation may be sought on issues of shared concern that include counternarcotics and counterterrorism efforts, trafficking in persons, protection of the Amazon, and HIV/AIDS prevention.

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. It will be updated. For more information on energy issues, see CRS Report RL34191, Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation, by Clare Ribando Seelke and Brent D. Yacobucci.
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Background

Brazil is a significant political and economic power in Latin America, but deep-seated social and economic problems have thus far kept it from realizing its goal of becoming a 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 188 million citizens are primarily of European, African, or mixed African and European descent.1 With an estimated gross domestic product (GDP) of $1.1 trillion in 2006, Brazil’s diversified economy is the eleventh largest in the world, the largest in Latin America, and one of the largest in the developing world, but per capita gross national income is only $4,730, and the country has a highly unequal income distribution.2 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. This apparent failure to live up to its enormous potential has resulted in the common adage, “Brazil is the land of the future, and always will be.”3

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. During the 1990s, Brazilian foreign policy 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 Luiz 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. It has sought to increase trade ties with other emerging economies, such as China, India and South Africa. Brazil is commanding a multinational United Nations (U.N.) Stabilization Mission in Haiti. Brazil has recently become as a global leader

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1 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 2006: Brazil, March 2007.


in biofuels production and promotion and may become an increasingly important petroleum exporter.

Currently, relations between the United States and Brazil may be characterized as warm and 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.4 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.5

This report 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. It then discusses a number of key issues in Brazil-U.S. relations.

**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).6

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4 Monte Reel, “U.S. Seeks Partnership with Brazil on Ethanol; Countering Oil-rich Venezuela is Part of Aim,” *Washington Post*, February 8, 2007.

5 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.

6 For a historical overview of Brazil’s political development, see Bolívar 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.
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 Southern Common Market (Mercosur), but fault him for failing to implement more aggressive political reforms and social reforms.

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 61% of the valid vote, as compared to Cardoso’s designated successor, José Serra, the Minister of Health and Senator from São Paulo, with 39%.

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

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7 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.

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. 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” that had failed to yield many concrete results.

Corruption Scandals. Many Brazilians had hoped that the PT, known as a “clean” party unhindered by corruption, would clean up Brazilian politics. Those hopes faded, however, after a series of corruption scandals involving top PT officials erupted during the later half of Lula’s first term. The main corruption scandal, which resulted in the resignation of several senior PT officials and the impeachment of several legislators, involved the President’s party allegedly paying monthly bribes to congressmen from allied parties. Another scandal involved allegations that the PT and other parties used off-the-books accounting systems to pay for their campaigns. Although many believe President Lula had to be aware of the bribery and irregular financing schemes, a congressional inquiry in April 2006 cleared President Lula of any direct responsibility for the scandals.

October 2006 Elections. On October 1, 2006, Brazilians headed to the polls to elect a president and vice president, federal legislators, and governors. Months before the election, most analysts predicted that President Lula would soundly defeat his main opponent Geraldo Alckmin, former governor of the state of São Paulo of the PSDB, in the first round. The presidential race tightened, however, when top Lula advisers were accused of trying to buy a dossier with damaging information on Alckmin two weeks prior to the election. Voters appeared to punish Lula for the scandal by denying him a first round victory. They also denied reelection to 61 of the legislators suspected of participating in the congressional scandals.

In the October 29 second round, Lula overcame his first-round setback, capturing 61% of the votes to Alckmin’s 39%. President Lula won handily in the poorer north and northeastern regions of the country, but failed to carry the more prosperous 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.

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The PT did not fare as well as President Lula in the legislative elections, suffering a loss of 9 seats in the Chamber of Deputies and losing 4 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.12

The Second Lula Administration

On January 1, 2007, Lula da Silva was inaugurated for a second four-year presidential term. After some delay, President Lula formed a broad governing coalition which he hoped would be capable of carrying out his agenda. President Lula is enjoying high approval ratings (65% in December 2007) and benefitting from a resurgent economy, but his government has been weakened by corruption scandals that have forced two cabinet ministers to resign.13 Brazil’s Supreme Court is investigating 40 of President Lula’s former officials who are accused of engaging in money laundering, embezzlement, and a number of other crimes during the first Lula term. Another challenge to governability for President Lula may be dealing with the ongoing intra-party conflicts between the PT and the Brazilian Democratic Movement Party (PMDB), the two largest parties in his fragile coalition.

Corruption, weak leadership, and a lack of support from members of his coalition have already hindered President Lula’s ability to gain congressional approval for his agenda. Legislative progress stalled throughout 2007 as the president of the Brazilian Senate, Renan Calheiros, a key Lula ally from the PMDB, refused to resign his position after being accused of corruption. In December, senators voted to acquit Calheiros of all wrongdoing even though a congressional ethics panel had recommended that he be impeached. Lacking strong leadership to hold governmental-allied senators in line, President Lula suffered a major setback as senators voted not to extend the provisional tax on financial transactions (CPMF) in December. Without CPMF resources, President Lula will have to cut spending and raise other taxes in order to make up for an estimated $21.7 billion budget shortfall.14

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

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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 has begun to experience some benefits, including lower inflation (just over 3% in 2006) 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. Fiscal discipline has also been accompanied by record exports that enabled Brazil to post GDP growth of close to 5% in 2007 and record trade surpluses in each of the last four years. But, Brazil still suffers from high real interest rates, 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 2006, Brazil was the world’s leading exporter of coffee, orange juice, sugar, chicken, beef, and tobacco. It was the second biggest exporter of soybean products. 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.

Brazil has also a relatively balanced trade regime. Its main trading partners in 2006 were the European Union (22% of exports and 22% of imports), Asia (20% of exports, 29% of imports, with China alone accounting for 6% of exports and 9% of imports), Latin America (23% of exports, 17% of imports), the United States (18% of exports, 16% of imports), Africa (5% of exports, 9% of imports), and the Middle East (5% of exports and 4% of imports). In 2007, the value of Brazil’s exports reached some $159 billion and the country’s trade surplus was $45 billion.

**Efforts to Boost Economic Growth**

One of President Lula’s goals for his second term has been to boost Brazil’s lagging economic growth. Since 2000, Brazil’s annual growth rates have averaged about 2.7%. In 2006, Brazil posted GDP growth of about 2.8%, the second lowest recorded in Latin America. President Lula has launched a Program to Accelerate Growth (PAC) aimed at boosting Brazil’s growth rates to 5% per year by 2008 through increased public and private investment in infrastructure, including highways, railways, and new airport facilities. The PAC provides tax breaks and incentives to spur investment and includes measures to improve and simplify Brazil’s regulatory framework. While some have praised the PAC’s focus on boosting government investment in much-needed infrastructure projects, others have criticized

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it for failing to curb excessive public spending or to promote labor reform. GDP growth in Brazil reached close to 5% in 2007.\textsuperscript{18}

Some predict that the Brazilian economy will continue expanding, but several factors could constrain its growth potential. Those include a high public debt burden, excessive government spending, high tax rates, low investment and savings rates, and high real interest rates. President Lula has thus far not elected to use his political capital to enact much-needed structural reforms to deal with those and other issues, such as the country’s unwieldy pension system.\textsuperscript{19} A 2006 report by the Organization for Economic Co-operation and Development (OECD) asserted that reforming Brazil’s overly generous public pension system was crucial in order for the country to experience sustained economic growth.\textsuperscript{20}

\section*{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 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.\textsuperscript{21} The United Nations Development Program (UNDP) 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 is historically extreme land concentration among the country’s elites. In Brazil, 1% of the population controls 45% of the farmland.\textsuperscript{22} 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 45% of the country’s population, but constitute 64% of the poor and 69% of the extreme poor.\textsuperscript{23}

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 has spent the same level or more of public spending on social programs as other countries with similar income levels, it has not

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achieved the same social indicators as those countries. 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 of Brazil.

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, and an emerging world power. Brazilian foreign policy has generally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries. 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 8,900 police and military personnel in Haiti. Brazilian foreign policy has tended to emphasize regional integration, first through the Common Market of the South (Mercosur) and now the South American Community of Nations. 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 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 for his second, 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 amongst 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. 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 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, which some say could add a decidedly anti-American factor to the pact. The Brazilian and Paraguayan Congresses have yet to approve

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27 For more information on Mercosur, see CRS Report RL33620: Mercosur: Evolution and Implications for U.S. Trade Policy, by J.F. Hornbeck.
Venezuela’s accession. 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 have not boded well for the future of Mercosur. In 2006, the 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. Trade asymmetries among the members have been left unaddressed at recent Mercosur summits, as have the need to draft a common customs code and to decide when and if Venezuela’s Mercosur membership will be approved.28

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 relatively successful initiative has involved the use of so-called “ethanol diplomacy.” Brazil has reasserted 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.29 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’ May 2006 nationalization of his country’s natural gas industry. President Lula has since acceded to several of Morales’ demands — including cutting tariffs for Bolivian exports to Brazil and stepping up investments in Bolivia — in order to secure access to Bolivian gas.30

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.31 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.

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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.32

Relations with the United States

Currently, relations between the United States and Brazil may be characterized as warm and 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 UN 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. 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 the past year or so, particularly on energy issues.

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. In FY2006, Brazil received $13.6 million in U.S. assistance. In FY2007, Brazil received an estimated $16.0 million in U.S. aid. The FY2008 request for Brazil was for $3.7 million. The FY2008 request for Brazil was substantially lower than in previous years, with the phasing out of all development assistance to Brazil and a reduction in counter-narcotics assistance, from $5.9 million in FY2006, to only $1 million in the FY2008 request. However, for the first time in several years, the FY2008 request included some $200,000 in International Military Education and Training (IMET) for the Brazilian military due to the de-linking of IMET from American Servicemembers’ Protection Act (ASPA) sanctions.33

The Consolidated Appropriations Act for FY2008 (H.R. 2764/P.L. 110-161) stipulates that funding from the Development Assistance and Global Health and Child Survival (formerly Child Survival and Health) accounts be made available for

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33 For more information on ASPA sanctions, see CRS Report RL33337, Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America, by Clare M. Ribando.
Brazil at no less than the amount allocated in FY2007. It also provides funding for environmental programs in Brazil at FY2006 levels and stipulates that, in addition to funding for country programs, not less than $15 million be made available in FY2008 for the Amazon Basin Conservation Initiative. In the joint explanatory statement to the Consolidated Appropriations Act for FY2008, the conferees recommend providing $1 million in Andean Counterdrug Initiative funds to Brazil.

Selected Issues in U.S.-Brazil Relations

The Bush Administration has come to view Brazil as a strong partner whose cooperation must be sought in order to solve regional and global problems. Current issues of concern to both Brazil and the United States include counternarcotics and terrorism, energy security, trade, environmental issues, human rights, and HIV/AIDS.

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 primarily for Europe, the United States, and local markets. It is the second largest consumer (after the United States) of cocaine in the Western Hemisphere. The Bush Administration includes Brazil on a list of major drug-producing or drug-transit countries. In FY2006, Brazil received an estimated $5.9 million in U.S. counternarcotics assistance through the Andean Counterdrug Initiative (ACI). For FY2007, Brazil received $4 million in ACI assistance, mainly for interdiction and law enforcement activities. In FY2008, the Administration requested $1 million in ACI funding for Brazil.

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. A new anti-money laundering law was drafted in 2005, but still has not been considered by the Brazilian Congress. In 2006, Brazil’s federal police, which generally are responsible for about 75% of total Brazilian drug seizures and detentions, captured 13.2 metric tons of cocaine, 144 kilograms of crack cocaine, and 57 kilograms of heroin. In May 2006, Brazilian police, participating in a coordinated law enforcement effort run by the U.S. Drug Enforcement Administration, arrested a major Colombian-born drug trafficker accused of smuggling more than 70 tons of cocaine to the United States. These seizures and arrests are likely to increase as Brazil expands it cooperation with neighboring countries by establishing joint intelligence centers.

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Counterterrorism and the Tri-Border Area

In its April 2007 State Department Country Reports on Terrorism, the State Department highlights threats in the Tri-Border Area (TBA) of Brazil, Paraguay, and Argentina, a region with a large Muslim population. The TBA has long been used for arms and drug trafficking, contraband smuggling, document and currency fraud, money laundering, and the manufacturing of pirated goods. According to the report, the United States remains concerned that Hezbollah and Hamas are receiving financial, logistical, and moral support from Muslims in the TBA, although the report also stated that there were no corroborated reports that these or any other Islamic groups had an operational presence in the area. The section on Brazil states that while the government vigorously condemned terrorism, “it did not provide the necessary political and material support to strengthen its domestic counterterrorism institutions.”

Energy Security

In the last two years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a country that has successfully reduced its reliance on foreign oil by using alternative energies. At the same time, Brazil has attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program. And, 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.

Ethanol and Other Biofuels. 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) feasability 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 are: the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis. 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 the U.S.-Brazil biofuels cooperation.

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36 For more information, see CRS Report RS21048, Latin America: Terrorism Issues, by Mark P. Sullivan.


38 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.

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. On the bilateral front, several high-level visits have taken place aimed at boosting bilateral cooperation on biofuels. U.S. government-hired consultants are finalizing the results of feasibility studies to identify short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. Brazilian consultants should be completing more macro-level assessments to help each country develop a national biofuels strategy by early 2008. The government of St. Kitts and Nevis has agreed to implement the U.S.-Brazil-Organization of American States (OAS) recommendation that it should dedicate land to bioenergy crops that will be used to produce electricity. On the multilateral front, the United States and Brazil are working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform by the end of 2007. 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. 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.

In the 109th Congress, legislation was introduced that would have eliminated these two taxes on foreign ethanol: H.R. 5170 (Shadegg) and S. 2760 (Feinstein), the Ethanol Tax Relief Act of 2006. However, in December 2006, Congress voted to extend the taxes on foreign oil through 2009.

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. Brazil joined the Nuclear Nonproliferation Treaty (NPT) in 1998 and since then has participated in several multilateral nonproliferation regimes, including the Missile Technology Control Regime and the Nuclear Suppliers Group (NSG). It is also a party to the Treaty of Tlatelolco, which establishes Latin America as a nuclear-weapon-free zone.

Despite its nonproliferation credentials, some international observers were concerned when Brazil commissioned a uranium enrichment plant in 2004 to be located at the Resende nuclear facility outside Rio de Janeiro. Uranium enrichment can be used for peaceful purposes (such as fuel for nuclear power plants) or for military purposes (nuclear weapons). In 2005, Brazilian officials refused to give International Atomic Energy Agency (IAEA) inspectors full access to the centrifuge plant, citing security concerns and 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

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40 For more information, see CRS Report RS21930, Ethanol Imports and the Caribbean Basin Initiative, by Brent D. Yacobucci.
inspections should be enough for Brazil to comply with its international obligations.  

Brazil is now close to becoming the ninth country in the world capable of enriching uranium to generate energy. Brazil’s reluctance to allow international inspectors to fully inspect the Resende facility has caused some observers to wonder whether Brazil’s “new enrichment capability... suggests South America’s biggest country may be rethinking its commitment to non-proliferation.” The Bush Administration, however, considers Brazil to have a fully operational nuclear enrichment capability and should not be required to abandon its uranium enrichment projects. President Lula has recently stated that Brazil is going to spend about $540 million over the next eight years in order to build a third nuclear power plant and a nuclear-powered submarine.

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 and to advance the global trade talks through the Doha Development Round. 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, including several Latin American countries.

Doha Round of the World Trade Organization (WTO) talks. 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 the latest 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 are substantially reduced. While Indian and Brazilian leaders are now optimistic that a compromise on industrial goods and


agricultural subsidies can still be reached, U.S. and EU leaders have expressed doubt that a compromise is still possible.45

**WTO 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 should remove some its cotton subsidies.46

In a separate decision, in mid-December the WTO decided to investigate Brazil and Canada’s claims that U.S. agriculture support programs have exceeded allowed levels.47 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.**48 The Generalized System of Preferences (GSP) provides duty-free tariff treatment to certain products imported from developing countries. The U.S. program (as established by Title V of the Trade Act of 1974) was extended until December 31, 2008, in section 8002 of P.L. 109-432 for all GSP beneficiary countries not covered by the African Growth and Opportunity Acceleration Act (AGOA) of 2004 (P.L. 108-274, extended GSP benefits for AGOA beneficiary countries through September 30, 2015). In the 109th Congress, renewal of the preference was somewhat controversial, owing, in part, to concerns of some that some 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 directing the President “should” revoke “competitive need limitation (CNL)” waivers for products from certain countries, based on the criteria specified.

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48 This section was drawn from CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.
In June 2007, the Bush Administration decided to revoke the CNL waivers on Brazilian brake parts and ferrozirconium.49

**Intellectual Property Rights.**50 In the last few years, Brazil has taken significant 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’s National Anti-Piracy Council, composed of government and private representatives, is widely regarded as a model in enforcing IPR. 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 2007.51 In order to build on progress that has been made, USTR recommends that Brazil should consider increasing its prosecution of IPR crimes, reducing the current backlog in patent applications, and stopping piracy and counterfeiting. The U.S. government has also expressed its 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.52

**Human Rights**

The U.S. State Department’s Country Report on Human Rights on Brazil covering 2006 states that while “the federal government generally respected the human rights of its citizens ... there continued to be numerous, serious abuses, and the record of several state [and municipal] governments was 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. Five Brazilian cities are among the fifteen cities in Latin America (the world’s most violent region) with the highest murder

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50 This section is drawn from: U.S. Trade Representative, (USTR), “Special 301 Report,” April 30, 2007.

51 Pursuant to Section 182 of the Trade Act of 1974 as amended, under Special 301 provisions, the USTR must identify those countries that deny adequate and effective protection for intellectual property rights (IPR) or deny fair and equitable market access for persons that rely on intellectual property protection. USTR has created a “Priority Watch List” for the worst violators and a “Watch List” for countries that, though somewhat better, still have problems protecting IPR.

Crime is most rampant in the urban shanty towns (favelas) in Rio de Janeiro and São Paulo. In addition to rising crime rates, human rights groups have identified extrajudicial killings by police and prison authorities as Brazil’s most pressing human rights problem. Upon completing a November 2007 visit to Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to “kill with impunity in the name of security.” Prison conditions range from “poor to extremely harsh and life threatening,” and the countrywide prison system, which housed more than 371,482 inmates in 2006, had an accommodation deficit of some 156,479.

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 mid-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. Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths. Brazilian press accounts reported that the violence did not end until a high-level truce was reached between state officials and gang leaders. The PCC launched further attacks in July and August 2006, which resulted in 19 deaths. Brazilian police have been criticized for the brutal manner in which they responded to the gang violence.

Violence in Rio de Janeiro has traditionally been linked to turf wars being waged between rival drug gangs for control of the city’s drug industry or to clashes between drug gangs and police officials. 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


54 Brazilian authorities report that, partially in response to violent gang attacks, São Paulo state police killed 533 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.


57 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.

Many analysts have placed the blame for the recent attacks on Brazilian politicians at all levels of government, who they say 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. Most Brazilians hope that the recent attacks in Rio will spur the country’s politicians to address delinquency quickly and effectively. President Lula did not launch any major anti-crime initiatives during his first term, but has recently announced a $3 billion anti-crime initiative that will combine police reform, prison construction, and other public security measures with significant investments in prevention, and rehabilitation programs.

Race and Discrimination. 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. 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. 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

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61 For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando.


to implement quota systems, and that the Special Secretariat lacks the funding, staff, and clout necessary to advance its initiatives.64

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.

**Trafficking in Persons for Forced Labor.**65 Brazil is a source, transit, and destination country for people, especially women and children, trafficked for forced labor or sexual exploitation. In the State Department’s *Trafficking in Persons (TIP) report, June 2006*, Brazil was listed as a Tier 2 Watch List country. In the report, the Brazilian government was cited for making only limited progress in bringing traffickers to justice and for failing to apply effective penalties for those who exploit forced labor. In the 2007 TIP report, reflecting some progress, Brazil was placed on Tier 2, reflecting some progress, but significant challenges remain, particularly in addressing trafficking for forced labor.66

In Brazil, more than 25,000 people have reportedly been recruited from small towns in the northeast to labor in the country’s agribusiness industry. Some allege 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. Some of that pig iron is processed into steel that is then purchased by major companies in the United States. The Brazilian government has also acknowledged that there have been instances of forced labor on some sugarcane properties in Brazil, particularly in the northeast region of the country.67

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65 For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

66 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.

Since 2003, the Brazilian government has adopted stronger penalties to punish employers caught using slave labor. It has also strengthened the Special Mobile Inspection Group of inspectors within the labor ministry, which has reportedly freed some 20,000 individuals from slavery during the past decade. In 2005, the ILO cited Brazil as a positive example of a country that has made a concerted effort to combat forced labor. In June 2007, Companhia Vale do Rio Doce (CVRD), a major Brazilian mining company, threatened to cut off supplies of iron ore to pig iron producers in Para state that have been accused of using forced labor. Brazilian government officials are also taking steps to eliminate the forced labor that exists on some of the country’s sugarcane properties. Despite these efforts, the State Department’s Trafficking in Persons Report covering 2006 reports that few prosecutions for forced labor have occurred in Brazil and that the country’s penalties for those accused of using forced labor are not sufficiently stringent.68

HIV/AIDS

Successive governments in Brazil have made the fight against the spread of HIV/AIDS a national priority. In 1985, Brazil’s national AIDS program began within the context of the country’s transition to democracy as a result of activism from Brazilian civil society. Initially focused on disease prevention, Brazil’s HIV/AIDS program expanded to providing antiretroviral (ART) drugs on a limited basis by 1991, and then to all people living with the disease 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 1996.69 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 there. 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 there. 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

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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 2005.70

Brazil currently manufactures older ART drugs 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. Despite that savings, Brazil’s ART program costs have escalated in recent years, prompting some advocates to urge the government to issue compulsory licenses that would enable Brazil to make or import generic versions of new, brand name drugs without the patent holder’s consent. The Lula government resisted licensing until May 2007, reportedly fearing reprisals from the pharmaceutical companies and retaliatory trade sanctions from the U.S. government.71

Brazil and the United States have disagreed as to whether prostitutes should be enlisted to help combat the spread of HIV/AIDS. In 2003, Congress passed an amendment to H.R. 1298 (P.L. 108-25, the law authorizing the President’s Emergency Plan for AIDS Relief), which prohibits U.S. funds from being distributed to any group or organization that does not have a policy “explicitly opposing prostitution and sex trafficking.” Brazil has rejected U.S. support for its HIV/AIDS programs because it is opposed to the new restrictions. That decision reportedly cost Brazil some $48 million in USAID funding for HIV/AIDS programs.72

Amazon Deforestation

The Amazon Basin contains over half of the world’s remaining tropical rainforests and is the most biodiverse tract of tropical rainforest in the world. Some 22% of the world’s known plant species exist in Brazil and 20% of the world’s fresh water lies in the Amazon basin. The Amazon is also thought to be home to one third of all species in the world. Further, the Amazon rainforest is a sink for global carbon dioxide, and is considered by many to be an important asset in moderating climate change.

Throughout the last forty years, the Brazilian Amazon has been increasingly deforested for development that includes roads, settlements, logging, subsistence and commercial agriculture, as well as cattle ranching. In 1960, the Amazon was largely undeveloped, but today approximately 15%-20% of the rainforest has been deforested. Deforestation threatens the biodiversity of the Amazon region and is a concern for climate change. 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

Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal. Deforestation rates, which have been fueled by increases in cattle ranching, soybean farming, and road building, spiked in 2002 and 2004 before declining by 32% in 2005 and another 11% in 2006.

The Brazilian government attributed that decline in the deforestation rate to its creation of new conservation areas and stricter enforcement of environmental regulations. The Lula government created some 7 million hectares of new conservation reserves in 2004 and 2005. It also arrested more than 100 people for illegal logging between June 2005 and January 2006. In March 2006, President Lula signed the Public Forest Management Law, which allows companies access to 3% of the Amazon on the condition that they carry out sustainable operations. Although some environmental groups have praised this progress, others fear that it may be too little too late. Skeptics assert that the declining deforestation rates recorded for the past two years did not occur because of any government initiatives, but because declining soybean prices coupled with the strengthening of Brazil’s currency made it less profitable to clear the forests. They point out that deforestation rates began rising again in 2007 as cattle ranchers, soy producers and illegal loggers increasingly used forest fires and chainsaws to clear large tracts of the rainforest. In order to combat further deforestation, most observers agree that cooperative efforts will have to be made between the Brazilian government, private companies, landowners, and the international community (including the United States).

USAID environment programs directly support the U.S.-Brazil Common Agenda for the Environment. USAID environment programs seek to promote proper land-use trends over large geographic areas while encouraging environmentally-friendly income generation activities for the rural poor. The FY2006 allocation for USAID environmental programs in Brazil was $5.1 million. The Consolidated Appropriations Act for FY2008 (H.R. 2764/P.L. 110-161) stipulates that funding for those programs be maintained at FY2006 levels. In FY2006, USAID also initiated the Amazon Basin Conservation Initiative, a regional program to support community groups, governments, and public and private organizations working in Brazil and other countries in the Amazon Basin in their efforts to conserve the Amazon’s

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74 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 (either accidental or induced) will alter the ecosystem sufficiently that forests cannot regenerate.


globally important bio-diversity. H.R. 2764/P.L. 110-161 stipulates that, in addition to funding for country programs, not less than $15 million be made available in FY2008 for the Amazon Basin Conservation Initiative.

**Figure 1. Map of Brazil**

*Source: Map Resources. Adapted by CRS. (K.Yancey 11/28/05)*