



# Brazil-U.S. Relations

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## Summary

As its economy has grown to be the sixth largest in the world, Brazil has consolidated its power in South America and become increasingly prominent on the world stage. The Obama Administration regards Brazil as an emerging center of influence, whose leadership it welcomes “to pursue progress on bilateral, hemispheric, and global issues.” In recent years, U.S.-Brazil relations have generally been positive despite Brazil’s prioritization of strengthening relations with neighboring countries and expanding ties with nontraditional partners in the “developing South.” Although some disagreements have emerged, Brazil and the United States continue to engage on issues such as security, energy, trade, human rights, and the environment.

### Political Situation

Dilma Rousseff of the ruling center-left Workers’ Party was inaugurated to a four-year presidential term on January 1, 2011. She inherited a country that had benefited from 16 years of stable and capable governance under Presidents Fernando Henrique Cardoso (1995-2002) and Luis Inácio Lula da Silva (2003-2010). Rousseff’s multiparty coalition holds significant majorities in both houses of Brazil’s legislature; however, keeping the unwieldy coalition together to advance her policy agenda has proven challenging. Although she has won approval for a federal worker pension reform, regulations for the 2014 World Cup, and a truth commission to investigate abuses during the military regime (1964-1985), other important initiatives have yet to advance. Rousseff has also lost several administration officials to corruption scandals but her efforts to clean up her cabinet have won popular support. In September 2012, 62% of Brazilians evaluated her administration as “good” or “very good.”

### Economic Conditions

With a gross national income of \$2.1 trillion, Brazil is the largest economy in Latin America. Over the past five years, the country has enjoyed average annual growth of over 4%. This growth has been driven by a boom in international demand for its commodity exports and the increased purchasing power of Brazil’s fast-growing middle class. The country has also benefitted from a series of policy reforms implemented over the course of two decades that have reduced inflation, fostered growth, and enabled Brazil to better absorb international shocks like the recent global financial crisis. After contracting by 0.3% in 2009, the Brazilian economy quickly bounced back with 7.6% growth in 2010. The economy has since slowed; it grew by 2.7% in 2011 and is expected to grow by just 1.5% in 2012. Unemployment remains near a record low, however, and the Rousseff Administration is implementing several policies designed to stimulate the economy.

### Congressional Action

The 112<sup>th</sup> Congress has maintained interest in U.S.-Brazil relations, with energy and trade issues receiving particular attention. Congress allowed a duty on imported ethanol to expire at the end of 2011, removing a long-standing barrier to U.S.-Brazil biofuels cooperation. A bill introduced in April 2012, H.R. 4621, would authorize the President to enter into negotiations with Brazil to obtain open and reciprocal market access for trade in ethanol products. H.R. 6539, introduced in September 2012, would create a U.S.-Brazil Joint Commission on Commerce and Trade to address bilateral trade issues and promote commercial opportunities in both countries. Several bills with implications for the long-standing U.S.-Brazil cotton dispute have also been introduced in the second session. H.R. 5143 would prohibit payments to the Brazil Cotton Institute and

thereby prevent the United States from complying with the terms of a temporary bilateral agreement. Additionally, both versions of the 2012 farm bill, S. 3240 and H.R. 6083, include potential modifications of the U.S. cotton program.

This report analyzes Brazil's political, economic, and social conditions, and how those conditions affect its role in the world and its relationship with the United States.

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## Political Situation

Dilma Rousseff of the center-left<sup>1</sup> Workers' Party (*Partido dos Trabalhadores*, PT) is approaching the halfway point of her four-year presidential term that began on January 1, 2011. She inherited a country that had benefited from 16 years of capable governance under Presidents Fernando Henrique Cardoso (1995-2002) and Luis Inácio Lula da Silva (2003-2010), during whose terms Brazil made significant advances in economic stabilization and social inclusion.<sup>2</sup> Rousseff has primarily focused on domestic challenges during her first two years in office, seeking to boost growth and protect employment in the near-term while implementing policies designed to strengthen Brazil's mid- and long-term economic competitiveness. Rousseff has also taken a stronger stand against corruption than previous presidents, dismissing several cabinet officials accused of abusing the public's trust. This has caused some tensions in her multiparty governing coalition, which holds significant majorities in both houses of Brazil's legislature but has proven difficult to control. Rousseff's efforts to strengthen the economy and clean up her cabinet have won her significant popular support. In September 2012, 62% of Brazilians rated the Rousseff Administration as "good" or "very good."<sup>3</sup>

## Background

Brazil occupies almost half of the continent of South America and is the fifth most populous country in the world with 191 million (2010) citizens.<sup>4</sup> The country has a federal structure, comprising 26 states, a federal district, and some 5,568 municipalities. Given its size and resources, Brazil has long held potential to become a world power. However, its rise to prominence has been hindered by setbacks, including 21 years of military rule, political instability, and uneven economic growth. Brazil's military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in some other South American countries. Although it nominally allowed the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. During the first decade after the country's return to civilian democratic rule, 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 died before taking office and the other was impeached on corruption charges. The political and economic situation only began to stabilize in the 1990s under President Fernando Henrique Cardoso.

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<sup>1</sup> Although the PT was founded as a leftist party, it moved toward the ideological center upon taking office in 2002. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

<sup>2</sup> See, for example, "Brazil's Presidential Election – Lula's Legacy," *Economist*, September 30, 2010; Juan Forero, "Cardoso vs. Lula: Two Brazilian Presidents Vie Over Who Turned Country Around," *Washington Post*, October 30, 2010; and Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

<sup>3</sup> Jefferson Ribeiro, "Aprovação do Governo Dilma Sobe com Medidas Econômicas—CNI/Ibope," *Reuters Brasil*, September 26, 2012.

<sup>4</sup> Instituto Brasileiro de Geografia e Estatística (IBGE), *Censo Demográfico 2010*, November 2010.

Cardoso, a prominent sociologist of the centrist<sup>5</sup> Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), was elected president in 1994. His victory was largely the result of the success of the anti-inflation “*Real Plan*” that he implemented as finance minister under President Itamar Franco (1992-1994). During his two terms in office, Cardoso brought inflation under control, gradually opened the Brazilian economy to trade and investment, and privatized a number of state-owned enterprises (see “Background: Reform and Stabilization” below). He also established several conditional cash transfer programs designed to improve social conditions in the country. Although Cardoso’s popularity declined considerably during his second term as Brazil struggled with a series of financial crises and economic growth remained weak, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has enjoyed since he left office.<sup>6</sup>

Luis Inácio Lula da Silva—known as Lula—was elected president of Brazil in 2002. The election was Lula’s fourth attempt at the presidency as the candidate of the PT, which he helped found as a metalworker and union leader in the 1980s. During his first term, Lula maintained the market-oriented economic policies associated with his predecessor while placing a greater emphasis on reducing poverty. He tightly controlled expenditures, raised the primary budget surplus, granted additional autonomy to the Central Bank, and enacted social security and tax reforms. At the same time, he reorganized and expanded some of the social programs initiated under Cardoso. Lula’s most high profile program, *Bolsa Familia* (Family Grant), provides monthly cash transfers to some 13 million poor families (52 million people)<sup>7</sup> in exchange for ensuring that their children attend school and receive proper medical care. Lula’s agenda stalled toward the end of his first term as several top PT officials were implicated in corruption scandals. A congressional inquiry eventually cleared the president of any direct responsibility, however, and Lula was elected to a second term in 2006.

After primarily focusing on maintaining economic stability during his first term, Lula established a larger role for the Brazilian state in economic development during his second term. He implemented several stimulus measures to accelerate economic growth and counteract the effects of the global financial crisis. He also expanded social programs like *Bolsa Familia* and launched new programs, such as My House, My Life (*Minha Casa, Minha Vida*)—an attempt to increase formal housing for low-income Brazilians.<sup>8</sup> Just before leaving office, Lula won legislative approval for a new regulatory framework that will increase the state’s role in the exploitation of Brazil’s considerable offshore oil reserves in hopes of using the resources to fuel long-term economic and social development.<sup>9</sup> (For more information, see “Oil” below.) Although some analysts have criticized Lula for allegedly protecting corrupt officials and not doing more to advance what they view as crucial economic, political, and social reforms,<sup>10</sup> he won the support

<sup>5</sup> The PSDB was founded as a center-left party by dissidents from the social democratic wing of the Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB); however, it has steadily moved to the right since implementing market-oriented economic reforms during the Cardoso Administration. Power and Zucco, 2009, op.cit.

<sup>6</sup> See, for example, Riordan Roett, “How Reform Has Powered Brazil’s Rise,” *Current History*, February 2010.

<sup>7</sup> “Brazil Anti-Poverty Plan Fails to Tackle Causes,” *Oxford Analytica*, June 15, 2011.

<sup>8</sup> Andrew Downie, “Brazil’s Stimulus with a Ceiling (and Four Walls),” *Time*, April 22, 2009; “Brazil: Lula Raises Subsidies to Poorest Families,” *Oxford Analytica*, August 3, 2009; “Lula’s Legacy to Brazil,” *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

<sup>9</sup> “Brazil Congress Approves Oil Law,” *Latin News Daily*, December 2, 2010.

<sup>10</sup> See, for example, Daniel Bramatti, “Lula, Sarney, Collor e Renan ... por Lula, Sarney, Collor e Renan,” *Estado de São Paulo*, August 9, 2009; “Brazil’s Presidential Election—Lula’s Legacy,” *Economist*, September 30, 2010; and Paulo (continued...)

of the vast majority of the Brazilian public during his two terms, leaving office with an 87% approval rating.<sup>11</sup>

**Figure I. Map of Brazil**



Source: Map Resources. Adapted by CRS Graphics.

## 2010 Elections

On October 31, 2010, Dilma Rousseff of the ruling PT won 56% of the vote to defeat José Serra of the PSDB in a second round presidential runoff election.<sup>12</sup> The second round was necessary since Rousseff had fallen just short of an absolute majority—with 46.9% of the vote—in the first round election held on October 3, 2010.<sup>13</sup> Given the strength of the Brazilian economy and Lula’s

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Kliass, “Lula’s Political Economy: Crisis and Continuity,” *North American Congress on Latin America (NACLA)*, March/April 2011.

<sup>11</sup> Bradley Brooks, “Lula’s Legacy, Leaving Behind a Transformed Brazil,” *Associated Press*, December 27, 2010.

<sup>12</sup> “Brazil: Lula Will Bolster—and May Hinder—Rousseff,” *Oxford Analytica*, November 1, 2010.

<sup>13</sup> Marina Silva, a former Lula Administration environment minister who ran for president as the candidate of the Green Party (*Partido Verde*, PV), outperformed the pre-election polls by taking 19.3% of the first round vote. Her (continued...)

overwhelming popularity, both major candidates had largely promised continuity during the campaign. Rousseff pledged to consolidate gains made during the Lula Administration and Serra proposed only relatively minor policy changes. Rousseff had never been elected to public office previously but was chosen by Lula to run as his successor. She served as minister of mines and energy from 2003-2005 and chief of staff from 2005-2010, during which time she was in charge of strategic projects such as the government's housing program, investments in infrastructure, and coordination of the design of a new regulatory framework for developing Brazil's offshore oil reserves. Rousseff headed a multiparty electoral coalition with a running-mate from the ideologically heterogeneous Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB).

In legislative elections conducted concurrently with the first round presidential election, Rousseff's coalition made significant gains in both houses of the Brazilian Congress. The PT now holds 88 of the 513 seats in the Chamber of Deputies and 14 of the 81 seats in the Senate, making it the largest party in the lower house and the second-largest party in the upper house. Rousseff's multiparty coalition holds over 60% of the seats in both houses of Congress, which are large enough majorities to amend the constitution.<sup>14</sup>

## Rousseff Administration

President Rousseff has primarily focused on domestic economic challenges since taking office. Early in her term, she sought to constrain spending in order to ease inflationary pressures and maintain a primary budget surplus of 3.1% of gross domestic product (GDP). She cut about \$25 billion (R\$50 billion) from the 2011 budget and limited the increase in the minimum wage (which is linked to public sector wages and pensions).<sup>15</sup> As Brazil's economy has slowed, however, Rousseff has favored more expansionary fiscal policies. She has maintained a strong role for the state in the economy, launching a series of short-term stimulus packages and increasing import tariffs to protect certain industries. At the same time, Rousseff has sought to encourage private investment in the country's overburdened infrastructure, selling licenses to build and operate roads, railways, ports, and airports.<sup>16</sup> Partially as a result of these measures, unemployment has remained below 6%—a historic low.<sup>17</sup>

Although Rousseff's governing coalition enjoys significant majorities in Congress, it has presented her with a number of challenges. The seven parties in her cabinet are ideologically diverse, and while some support the policies of the PT, others—including the large PMDB—have demonstrated more interest in the distribution of government resources and the control of ministries and state enterprises.<sup>18</sup> Almost immediately, some sectors of the coalition voiced discontent as a result of Rousseff's cabinet appointments and her attempt to slow the growth of

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unexpectedly strong finish kept Rousseff under 50% and forced a second round runoff. Serra won 32.6% of the first round vote. "Brazil's 'Green Wave' Shocker," *Latin News Daily*, October 4, 2010.

<sup>14</sup> Tribunal Superior Eleitoral (TSE), January 5, 2010, <http://www.tse.gov.br/internet/index.html>.

<sup>15</sup> "Brazil: Rousseff's Strong Start Boosts Confidence," *Oxford Analytica*, April 7, 2011.

<sup>16</sup> "Stimulus Measures Unlikely to Boost Brazilian Growth," *Oxford Analytica*, July 9, 2012; Raymond Colitt, "Ex-Guerilla Rousseff Adopts Business Agenda to Spur Brazil," *Bloomberg*, September 20, 2012.

<sup>17</sup> "Country Report: Brazil," *Economist Intelligence Unit*, September 2012.

<sup>18</sup> Marco Antonio Villa, "PMDB Será Pedra no Sapato da Presidente," *Folha de São Paulo*, November 20, 2010; Otávio Cabral, "A Digestão do Poder," *Veja*, July 29, 2009.

government spending.<sup>19</sup> Rousseff's unwillingness to throw her full support behind officials accused of corruption has exacerbated these intra-coalition differences. Seven of her cabinet ministers have been forced out by corruption allegations.<sup>20</sup> In protest, some allied legislators have obstructed administration initiatives or even voted with the political opposition on key issues.<sup>21</sup> Intra-coalition struggles may increase once again in the aftermath of the October 2012 municipal elections, with the parties that demonstrated greater political strength pushing for more influence in the government.

Despite these economic and coalition challenges, President Rousseff has been able to advance portions of her policy agenda. In November 2011, Rousseff—who was imprisoned and tortured by the country's military government as a result of her participation in a leftist guerilla organization—signed a law establishing a truth commission to investigate human rights abuses committed during the authoritarian period (1964-1985). Unlike many South American countries, Brazil has never taken steps to address human rights violations committed by the military. The truth commission will have subpoena power and complete access to government documents, but will not result in prosecutions since a 1979 amnesty law remains in place.<sup>22</sup> Rousseff has also won approval for a federal worker pension reform and regulations for the 2014 World Cup.<sup>23</sup> Several other controversial issues remain on the Rousseff Administration's agenda, however, including a new revenue sharing framework that must be passed in order to begin developing the majority of the country's recently discovered offshore oil reserves (see "Oil" below).

Rousseff has maintained considerable popular support since taking office. In September 2012, 62% of Brazilians rated her administration as "good" or "very good" while just 7% rated it as "bad" or "terrible." Moreover, President Rousseff received a personal approval rating of 77%. Rousseff's strong public standing is largely the result of her efforts to improve economic conditions. According to the September poll, her administration receives its highest marks for reducing poverty and combating unemployment.<sup>24</sup> Rousseff's high approval rating also appears to have benefitted her party in the first round of the October 2012 municipal elections. The PT received the largest number of mayoral votes nationwide, and increased its total number of mayoral seats by 14% to 627.<sup>25</sup> Many analysts expected the PT to lose support in the elections as a result of a high profile corruption case in front of the Supreme Court that has convicted a number of former party officials for their involvement in a Lula-era vote-buying scheme.<sup>26</sup> Rousseff's anti-corruption efforts appear to have helped shield the PT from the fallout.

<sup>19</sup> Vera Rosa and Rafael Moraes Moura, "Ministério de Dilma Mantém Fatia de Poder do PT e Desagrada a Aliados," *Estado de São Paulo Digital*, December 22, 2010.

<sup>20</sup> "Coming Into Her Own," *Economist*, February 18, 2012.

<sup>21</sup> Juan Arias, "El Ala Izquierda del PT Critica la Política de Austeridad de Rousseff," *El País* (Argentina), March 1, 2011; "Brazil's Congress Calls 'Go-Slow' Strike," *Latin News Daily*, August 11, 2011.

<sup>22</sup> "Brazilian President Signs Truth Commission Law," *Associated Press*, November 18, 2011.

<sup>23</sup> Raymond Colitt, "Brazil Finds It Takes a Woman to Confront Congress without Fear," *Bloomberg*, April 4, 2012.

<sup>24</sup> Jefferson Ribeiro, "Aprovação do Governo Dilma Sobe com Medidas Econômicas—CNI/Ibope," *Reuters Brasil*, September 26, 2012; Diogo Alcântara, "CNI/Ibope: Aprovação do Governo Dilma Sobe para 62%," *Terra* (Brazil), September 26, 2012.

<sup>25</sup> "PMDB é Campeão em Número de Prefeitos, PT Vence em Total de Votos," *Folha de São Paulo*, October 8, 2012.

<sup>26</sup> See, for example, Raymond Colitt, "Brazil Corruption Trial Chills Lula Legacy as Party Vote Suffers," *Bloomberg*, August 1, 2012.

## Economic Conditions

With a gross national income (GNI) of \$2.1 trillion,<sup>27</sup> Brazil is the largest economy in Latin America and the sixth largest in the world.<sup>28</sup> Over the past five years, the country has enjoyed relative macroeconomic stability and average annual growth of nearly 4.3%.<sup>29</sup> This growth has been driven by a boom in international demand—particularly in Asia—for its commodity exports, and the increased purchasing power of Brazil’s fast-growing middle class, which has added some 40 million people since 2003 and now accounts for a majority of the population.<sup>30</sup> In 2011, Brazil had a trade surplus of \$29.8 billion, or 1.2% of GDP. The total value of its exports reached \$256 billion (10.1% of GDP), with top exports including commodities such as iron ore, oil, soy, sugar, chicken, and beef, as well as manufactured goods such as automobiles and machinery.<sup>31</sup> The country’s current economic strength is at least partially the result a series of policy reforms

implemented over the course of two decades that have reduced inflation, fostered growth, and enabled Brazil to better absorb international shocks like the recent global financial crisis.<sup>32</sup> After contracting by 0.3% in 2009, the Brazilian economy quickly bounced back with 7.6% growth in 2010. Economic growth has since slowed, however, with GDP expanding by 2.7% in 2011 and private analysts forecasting an expansion of just 1.5% in 2012.<sup>33</sup> The Rousseff Administration is currently implementing several measures designed to boost growth in the short-run and make the Brazilian economy more competitive in the future.

### Brazil in Brief

Approximate Size: Slightly Smaller than the United States

Population: 191 Million (2010)

Ethnic Groups: African, Portuguese, Italian, German, Spanish, Japanese, Indigenous peoples, and people of Middle Eastern descent.

Religion: 74% Roman Catholic

Official Language: Portuguese

GNI (Atlas Method): \$2.1 Trillion (2011)

GNI per Capita (Atlas Method): \$10,720 (2011)

Life Expectancy: 73 years (2011)

Infant Mortality Rate: 14 per 100,000 live births (2011)

Adult Literacy Rate: 90% (2008)

Poverty Rate: 24.9% (2009)

Indigence Rate: 7% (2009)

**Sources:** Instituto Brasileiro de Geografia e Estatística, U.S. State Department, World Bank, U.N. Economic Commission for Latin America and the Caribbean

<sup>27</sup> World Bank, “World Development Indicators,” <http://data.worldbank.org/data-catalog/world-development-indicators>.

<sup>28</sup> “Brazilian Economy Overtakes UK’s, Says CEBR,” *BBC News*, December 26, 2011.

<sup>29</sup> “Country Report: Brazil,” *Economist Intelligence Unit*, March 2012.

<sup>30</sup> The Brazilian government breaks the population into five income classes: A, B, C, D, and E. Those in the “C” class, who earn between approximately \$590 and \$2,544 (R\$1,200-5,174) per month, now account for over half of the Brazilian population. Marcelo Cortes Neri, *Os Emergentes dos Emergentes: Reflexões Globais e Ações para a Nova Classe Média Brasileira*, Fundação Getulio Vargas, Rio de Janeiro, June 27, 2011.

<sup>31</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, January 2011.

<sup>32</sup> “Brazil Takes Off,” *Economist*, November 12, 2009.

<sup>33</sup> “Country Report: Brazil,” *Economist Intelligence Unit*, September 2012.

## Background: Reform and Stabilization

Following the return to democracy in the late 1980s and early 1990s, Brazil struggled with persistent high inflation and slow growth. In order to address these issues, the Brazilian government launched the “*Real Plan*” in 1994. The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with annual inflation falling from 2,730% in 1993 to 17.8% in 1995. Fernando Henrique Cardoso, who had been in charge of the *Real Plan* as finance minister, took office as president in 1995 and continued the economic reform push by privatizing state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment.

Although Brazil enjoyed stronger growth rates for a few years following the *Real Plan*, macroeconomic stability remained elusive. In order to take advantage of the improved economic situation and high real interest rates, foreign investors began flooding Brazil with large capital inflows. The increase in foreign capital contributed to currency appreciation and the eventual overvaluation of the *real*. Following the 1997 East Asian and 1998 Russian financial crises, international investors began to worry about Brazil’s overvalued exchange rate and substantial fiscal deficits. The Brazilian government’s inability to pass legislation capable of addressing these issues sparked a massive capital flight. Brazil was forced to adopt a floating exchange rate, and the *real* lost 40% of its value.<sup>34</sup>

In the aftermath of the 1998-1999 financial crisis, Brazil adopted the three main pillars of its current macroeconomic policy: a floating exchange rate, a primary budget surplus, and an inflation-targeting monetary policy. Although these policies were introduced toward the end of the Cardoso Administration, they were maintained and strengthened under President Lula and now have support across the political spectrum. Under the current policy mix, inflation has remained relatively low and economic growth has accelerated. Likewise, public debt has declined, with Brazil repaying its \$15.5 billion debt to the International Monetary Fund (IMF) ahead of schedule in 2005, and becoming a net IMF creditor in 2009.<sup>35</sup>

## Global Financial Crisis and Current Challenges

Brazil weathered the global financial crisis much better than previous international shocks. The country experienced a brief recession in 2009, with an economic contraction of 0.3%, before rebounding quickly with growth of 7.6% in 2010.<sup>36</sup> Most analysts credit Brazil’s strong macroeconomic framework and the Lula Administration’s timely policy response for successfully mitigating the effects of the crisis.<sup>37</sup> As the fallout of the financial crisis spread around the world, the Brazilian government injected additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate. President Lula also acted to boost

<sup>34</sup> Riordan Roett, “How Reform has Powered Brazil’s Rise,” *Current History*, February 2010; CRS Report 98-987, *Brazil’s Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

<sup>35</sup> Antonio Rodriguez, “Brazil Switches Roles with Helping Hand for IMF,” *Agence France Presse*, October 5, 2009.

<sup>36</sup> “Country Report: Brazil,” *Economist Intelligence Unit*, September 2012.

<sup>37</sup> See, for example, “IMF Executive Board Concludes 2010 Article IV Consultation with Brazil,” *International Monetary Fund*, August 5, 2010; and Cristiano Romero, “O Legado de Lula na Economia,” *Valor Online* (Brazil), December 29, 2010.

domestic consumption in hopes of partially offsetting declines in global demand. The government mandated above-inflation increases to the minimum wage, provided temporary tax reductions, increased investments in its signature infrastructure program, and maintained its spending on social programs like *Bolsa Familia*.<sup>38</sup>

Although Brazil recovered quickly from the financial crisis, the lingering effects of the global downturn have presented challenges for the country's economy. Slow growth rates and expansionary monetary policies have kept interest rates low in Europe and the United States, and have encouraged investors looking for higher returns to flood Brazil and other developing nations with foreign capital. These policies have contributed to considerable appreciation of the Brazilian *real*,<sup>39</sup> and have hurt the competitiveness of Brazilian industry.<sup>40</sup> The Brazilian government has responded by accusing the United States and others of fueling "currency wars" through "competitive devaluations,"<sup>41</sup> and by instituting measures designed to discourage inflows of foreign capital. It has imposed a financial operations tax, and the Brazilian Central Bank has been willing to tolerate inflation at the high end of its target range in order to reduce interest rates to a record low. As noted above, the Rousseff Administration has also implemented temporary policies designed to support local industry and stimulate growth, such as raising import tariffs on certain products and providing temporary tax cuts. Brazil's economy, which grew by 2.7% in 2011, is forecast to grow by just 1.5% in 2012.<sup>42</sup>

A number of analysts maintain that Brazil's slowing economic growth is the result of the country's structural challenges, and that the government should implement policies designed to boost investment rather than domestic demand.<sup>43</sup> While the Rousseff Administration has continued to support short-term stimulus policies, as noted above, it has also taken a number of actions in recent months to reduce business costs. It has cut payroll taxes, reduced energy costs, and encouraged private investment in the country's overburdened infrastructure by selling licenses to build and operate roads, railways, ports, and airports.<sup>44</sup> Rousseff has also announced her Administration's intention to use new royalties from the oil industry to invest in education.<sup>45</sup> Although significant structural challenges remain, it appears as though the Rousseff Administration recognizes the need to address them in order to foster Brazil's long-term economic development.

<sup>38</sup> "Brazil Economy: Bottoming Out?" *Economist Intelligence Unit*, May 7, 2009; "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>39</sup> Ian Talley, "IMF Says Capital Controls Can Slow Investment Flows in India, Brazil," *Wall Street Journal*, January 6, 2011.

<sup>40</sup> "Brazil: Reserve Requirements Will Not Weaken Real," *Oxford Analytica*, January 11, 2011; Matthew Bristow, "Brazil Central Bank Moves to Curb Short Dollar Bets and Rein in Real Rally," *Bloomberg*, July 10, 2011; "Brazil Taxes Derivatives to Brake Currency Rally," *Reuters*, July 27, 2011.

<sup>41</sup> Ed Dolan, "Why Latin America Hates QE2," *Business Insider*, January 20, 2011; "Brazil: Currency War Begins to Exact Toll," *Latin American Weekly Report*, January 6, 2011.

<sup>42</sup> "Country Report: Brazil," *Economist Intelligence Unit*, September 2012.

<sup>43</sup> Paulo Vieira da Cunha and Vinod Thomas, "The Brazilian Economy: The Choices for Dilma," Remarks at the Inter-American Dialogue, Washington, DC, November 10, 2010; Arthur Carvalho and Gray Newman, "Brazil: Dismantling the Policy Mismatch?," *Morgan Stanley Research*, August 10, 2012.

<sup>44</sup> "Stimulus Measures Unlikely to Boost Brazilian Growth," *Oxford Analytica*, July 9, 2012; Raymond Colitt, "Ex-Guerilla Rousseff Adopts Business Agenda to Spur Brazil," *Bloomberg*, September 20, 2012.

<sup>45</sup> "Brazil: Rousseff Pledges 100% of Offshore Oil Royalties to Education," *Latin American Weekly Report*, August 23, 2012.

## Social Conditions

Despite its fast-growing economy and large resource base, Brazil has had problems solving deep-seated social problems. The country has one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. The wealthiest 10% of the population control about 45% of the country's wealth while the poorest 10% control just 1.1% of the wealth.<sup>46</sup> Like elsewhere in Latin America, Brazil's high inequality is partially a legacy of extreme land concentration among the country's elite. The Brazilian government has also acknowledged that there is a racial component to inequality. While over 50% of Brazilians identify themselves as black or mixed race, afro-Brazilians account for just 18% of the wealthiest section of society (the so-called "Class A") and over 76% of the poorest section of society (the so-called "Class E").<sup>47</sup> Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities.

The Brazilian government's efforts to reduce social disparities have recently begun to demonstrate results. As late as 2005, the Organization for Economic Cooperation and Development (OECD) asserted that Brazil had not achieved the same social indicators as countries with similar income levels despite having spent the same amount or more on social programs.<sup>48</sup> More recent evidence, however, indicates that Brazil has made substantial progress in the last several years as a result of the country's social policies and steady economic growth. Between 1999 and 2009, the percentage of the population living in poverty fell from 37.5% to 24.9%, and the percentage living in extreme poverty fell from 12.9% to 7%.<sup>49</sup> Inequality was also reduced, with the Gini coefficient<sup>50</sup> falling from 0.52 to 0.47.<sup>51</sup> According to a recent study, these changes are mostly attributable to increased earnings, though increased government transfers through social security benefits and the *Bolsa Familia* program have also played a significant role.<sup>52</sup>

In June 2011, President Rousseff launched an anti-poverty program known as Brazil Without Poverty (*Brasil Sem Miséria*). The program is designed to eradicate extreme poverty by 2014. It will increase transfer payments provided through existing programs such as *Bolsa Familia*; increase access to public services such as education, electricity, health care, housing, and sanitation; and increase economic opportunities in urban and rural areas by providing access to microcredit, skills training, technical assistance, and new markets.<sup>53</sup>

<sup>46</sup> "Brazil's Income Gap Continues Wide in Brazil," *Associated Press*, November 16, 2011.

<sup>47</sup> Tom Phillips, "Brazil Census Shows African-Brazilians in the Majority for the First Time," *Guardian*, November 17, 2011.

<sup>48</sup> OECD, *Economic Survey of Brazil 2005*, March 2005.

<sup>49</sup> United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2011*, November 2011, [http://www.eclac.cl/publicaciones/xml/5/45175/2011-819\\_PSI-Summary-WEB.pdf](http://www.eclac.cl/publicaciones/xml/5/45175/2011-819_PSI-Summary-WEB.pdf).

<sup>50</sup> The Gini coefficient is a value between zero and one, where zero represents complete equality and one represents complete inequality.

<sup>51</sup> Clóvis Rossi, "Desigualdade, o Fracasso da Esquerda," *Folha de São Paulo*, August 26, 2012.

<sup>52</sup> Instituto de Pesquisa Econômica Aplicada (IPEA), *A Década Inclusiva (2001-2011): Desigualdade, Pobreza e Políticas de Renda*, Comunicados do Ipea N° 155, September 25, 2012.

<sup>53</sup> Governo Federal do Brasil, Ministério do Desenvolvimento Social e Combate à Fome, *Plano Brasil Sem Miséria*, [http://www.brasilsemmiseria.gov.br/wp-content/themes/bsm2nd/caderno\\_brasil\\_sem\\_miseria.pdf](http://www.brasilsemmiseria.gov.br/wp-content/themes/bsm2nd/caderno_brasil_sem_miseria.pdf).

## Foreign 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 center of global influence. Brazilian foreign policy has traditionally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.<sup>54</sup> Adherence to these principles has enabled Brazil to maintain peaceful relations with all 10 of its neighbors<sup>55</sup> and to play a larger role in global affairs than its economic and geopolitical power would otherwise allow. Building on its traditional principles, Brazilian foreign policy under the PT administrations of Presidents Lula and Rousseff has emphasized three areas of action: (1) reinforcing relations with traditional partners such as its South American neighbors, the United States, and Europe; (2) diversifying relations by forging stronger economic and political ties with other nations of the developing world; and (3) supporting multilateralism by pushing for the democratization of global governance.<sup>56</sup>

## Regional Policy

Over the past decade, Brazil has firmly established itself as a regional power. Within South America, Brazilian foreign policy supports economic and political integration efforts in order to reinforce long-standing relationships with its neighbors. Although integration is the primary purpose of organizations like the Common Market of the South (Mercosur) and the Union of South American Nations (Unasur), they also serve as forums in which Brazil can exercise its leadership and develop consensus around its positions on regional and global issues. Brazil's emphasis on forging new ties has led to increased engagement with countries in Central America and the Caribbean, areas where Brazil has not traditionally had much influence. Brazil engages in multilateral regional diplomacy through the Organization of American States (OAS);<sup>57</sup> however, it has demonstrated a preference for resolving issues, when possible, through regional forums that do not include the United States.

## South American Integration

In 1991, Brazil joined with Argentina, Paraguay, and Uruguay to establish the Common Market of the South (Mercosur),<sup>58</sup> an organization intended to promote economic integration and political cooperation among the countries. Although member states have been able to achieve consensus on a number of political issues, progress on the economic front has been slow. The Mercosur pact

<sup>54</sup> Georges D. Landau, "The Decision Making Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

<sup>55</sup> In addition to bordering nine of the eleven other independent countries in South America, Brazil borders French Guiana—a territory of France (see **Figure 1**, for a map of Brazil and its neighbors).

<sup>56</sup> "Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty," Ministério das Relações Exteriores, January 2, 2011; "Brazil has Become the 'Unavoidable Partner' in the Global Decision-Making Process," *MercoPress*, December 14, 2010.

<sup>57</sup> For more information on the OAS, see CRS Report R42639, *Organization of American States: Background and Issues for Congress*, by Peter J. Meyer.

<sup>58</sup> For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

calls for an incremental path to full economic integration, yet only a limited customs union has been achieved thus far. Member states finally agreed on a common customs code and the elimination of double tariffs on non-Mercosur goods transported between countries in August 2010;<sup>59</sup> however, progress on other crucial issues has since stalled.<sup>60</sup> In July 2012, Argentina, Brazil, and Uruguay suspended Paraguay from Mercosur as a result of the express impeachment of the Paraguayan president, which they maintain was undemocratic. At the same time, they agreed to admit Venezuela, whose accession had been blocked by the Paraguayan legislature. A number of analysts argue that these actions reflect the transformation of Mercosur into a political bloc with few prospects for further economic integration.<sup>61</sup>

The ongoing problems with Mercosur have not prevented Brazil from pushing for broader regional integration. In 2008, all 12 independent countries of South America joined together to form the Union of South American Nations (Unasur).<sup>62</sup> Primarily a political body, Unasur has served as a forum for dispute resolution and the formation of common policy positions. With Brazil playing an influential role, the organization helped resolve political conflicts in Bolivia in 2008 and Ecuador in September 2010, and took a strong stance against the ouster of the president of Honduras in 2009.<sup>63</sup> Brazilian diplomacy played an important role in convincing each of the Unasur member states to also join the associated South American Defense Council, designed to boost regional cooperation on security policies.<sup>64</sup> Within the council, South American countries have discussed defense spending and reviewed defense agreements with extra-regional powers.<sup>65</sup> Notwithstanding its many successes, Unasur's capacities are currently rather limited. Member states are reluctant to cede authority to the organization, it has largely been unable to mediate disputes when there is no regional consensus, and it is heavily reliant on presidential diplomacy since it lacks strong formal institutions.<sup>66</sup>

By promoting integration through organizations like Mercosur and Unasur, Brazil has been able to solidify its standing as a regional power. These organizations provide forums in which Brazil can exercise leadership and build broad support for its positions on regional and global issues. The successes of Mercosur and Unasur have instilled a confidence in South American nations that the region can resolve internal problems without having to turn to extra-regional powers, such as the United States. Some South American countries, however, are uncomfortable with Brazil's growing economic and political influence in the region. This has already generated backlash against Brazilian companies in several cases, and led to tensions between Brazil and some of its

<sup>59</sup> "Mercosur Wraps Up Successful Summit," *EFE News Service*, August 3, 2010; "Las Reglas Comerciales Comunes Tendrán que ser Ratificadas por el Congreso de Cada Socio; Aprobaron el Código que Regirá el Comercio Dentro del Mercosur," *Clarín*, August 4, 2010.

<sup>60</sup> "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

<sup>61</sup> See, for example, Guido Nejamkis, "Analysis: Venezuela Joins Trade Bloc Big on Politics, Protectionism," *Reuters*, July 30, 2012.

<sup>62</sup> The treaty establishing Unasur entered into force on November 30, 2010, when Uruguay became the ninth country to approve its ratification. "Uruguay Ratificó Tratado de la Unasur, que Completa Nueve Adhesiones," *Agence France Presse*, November 30, 2010.

<sup>63</sup> "Unasur Assigns Itself Some Authority," *Latin News Daily*, November 26, 2010.

<sup>64</sup> "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

<sup>65</sup> "Brasil Propondrá Creación de un Consejo de Paz y Seguridad de la Unasur," *EFE News Service*, January 13, 2010.

<sup>66</sup> Andrés Serbin and Peter Hakim, "The Union of South American Nations (UNASUR)," Remarks at the Inter-American Dialogue, Washington, DC, November 23, 2009; "Latin America: Regional Tensions Challenge UNASUR," *Oxford Analytica*, August 21, 2009.

neighbors.<sup>67</sup> Anxieties about Brazil's intentions and role are likely to grow as Brazil continues to pursue its regional and global interests.

Moreover, it is unclear if Brazil is willing to accept the costs and responsibilities associated with regional leadership. Although the country has shouldered the burden for multilateral integration efforts, such as providing 70% of the annual budget for Mercosur's Structural Convergence and Institutional Strengthening Fund,<sup>68</sup> it has been less willing to make unilateral concessions to foster development and good will among its neighbors. For example, when Lula agreed to pay Paraguay a higher price for energy generated by a jointly owned hydroelectric plant in July 2009, he was heavily criticized by some within Brazil and the Brazilian Congress blocked the agreement until May 2011.<sup>69</sup> Given that the country is still resolving its own economic and social problems, it may be difficult to convince the Brazilian population that the somewhat intangible benefits of regional leadership outweigh the very visible costs.

### Expansion of Influence into the Caribbean and Central America

In addition to consolidating its power within South America, Brazil has sought to expand its influence in the broader region by increasing its engagement in the Caribbean and Central America. Brazil has taken on considerable responsibilities in Haiti, where it has commanded the U.N. Stabilization Mission (MINUSTAH) since 2004. Some 10,000 Brazilian military personnel have rotated through the country since the start of MINUSTAH, and with nearly 1,900 police and troops currently on the ground, Brazil is the largest peacekeeping contingent in Haiti.<sup>70</sup> Brazil is also increasingly providing Caribbean and Central American nations with humanitarian and technical assistance. Between 2005 and 2009, Cuba, Haiti, and Honduras were three of the top four recipients of Brazilian humanitarian assistance, receiving over \$50 million (R\$79 million) combined.<sup>71</sup> Technical assistance has taken many forms, such as so-called "ethanol diplomacy," in which Brazil has signed bio-fuels partnership agreements with countries that would otherwise be dependent on expensive oil imports.<sup>72</sup> Moreover, Brazil has become a regional observer of the Central American Integration System (SICA), promoted a trade agreement between SICA and Mercosur, and supported the creation of a regional group known as the Community of Latin American and Caribbean States, which includes all of the countries of the hemisphere except Canada and the United States. Although Brazil has become much more visible as a result of these efforts, most analysts assert that country's influence in Central America and the Caribbean remains limited.<sup>73</sup>

<sup>67</sup> Simon Romero, "Brazil's Long Shadow Vexes Some Neighbors," *New York Times*, November 4, 2011.

<sup>68</sup> "Brazil Invested 1.7bn Dollars in International Cooperation 2005-2009," *BBC Monitoring*, January 14, 2011.

<sup>69</sup> "Lula Criticised for 'Partisan' Foreign Policy," *Latin American Weekly Report*, January 22, 2009; Pedro Servin, "Paraguay-Brazil Energy Treaty Going Nowhere Fast," *Associated Press*, December 16, 2009; Juliette Kerr, "Brazil – Paraguay: Brazilian Congress Concludes Voting on Accord Altering Payment Terms for Itaipu Hydroelectric Plant," *IHS Global Insight*, May 12, 2011.

<sup>70</sup> "Brasil Pide Compromiso Renovado de Comunidad Internacional con Haití," *Agence France Presse*, January 12, 2011; Wilson Tosta and Glauber Goncalves, "Ex-Comandante Defende que Exército Continue no Haiti," *Estado de São Paulo*, November 5, 2010; United Nations, "UN Mission's Summary Detailed by Country," August 31, 2012.

<sup>71</sup> IPEA, *Cooperação Brasileira Para o Desenvolvimento Internacional: 2005-2009*, Brasília, December 2010.

<sup>72</sup> "Chávez, Lula Promote Competing Visions," *Miami Herald*, August 10, 2007.

<sup>73</sup> See, for example, Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010; "Brazil is Challenging Mexico and U.S. Domination of Isthmus," *Latin America Data Base, NotiSur*, June 11, 2009; and Andres Oppenheimer, "Brazil Stretching Clout to Central America," *Miami Herald*, June 7, 2009.

## Emerging Global Role

As Brazil's economy has grown to be the sixth largest in the world, the country has utilized its growing economic clout to assert Brazilian influence on a range of global matters. On global trade and financial issues, where Brazil's economic weight ensures the country a principal role in policy discussions, Brazil has sought to coordinate with, and represent, other developing nations. This has coincided with a broader focus on "South-South" cooperation, in which Brazil has expanded diplomatic and commercial ties with countries throughout the developing world. With its increasing international prominence, Brazil has pushed for a democratization of global governance institutions and a greater role for emerging powers in resolving issues of geopolitical importance. Although few analysts deny that Brazil's international stature has risen significantly over the past decade, many believe that the country must overcome considerable challenges to be considered a world power. These include undertaking reforms to maintain its current economic trajectory, addressing long-standing domestic security challenges, and modernizing and expanding its military capacity.<sup>74</sup>

## South-South Ties

Brazilian foreign policy under the PT administrations of Presidents Lula and Rousseff has prioritized relations with nontraditional partners in the developing world, or "South-South" ties. During the Lula Administration, the country significantly expanded its diplomatic presence in the developing world, opening 37 new embassies and 25 new consulates.<sup>75</sup> Brazil also increased its international development assistance, which totaled \$362 million (0.02% of GDP) in 2009. The majority of Brazil's aid has gone to Latin America, the Caribbean, and Africa—with a special emphasis on fellow Portuguese-speaking nations. It includes humanitarian assistance and technical cooperation focused in sectors where Brazil has been particularly effective domestically, such as poverty reduction, tropical agriculture and biofuels production, and the prevention and treatment of HIV/AIDS and tropical diseases.<sup>76</sup> These diplomatic and development ties have coincided with increased commercial relations. While Brazil's total world trade grew by nearly 350% between 2002 and 2011, trade with Latin America and the Caribbean grew by 380%; trade with Africa grew by nearly 450%; trade with India grew by over 650%; and trade with China grew by nearly 1,800%. China is now Brazil's top trading partner, with total trade valued at \$77.1 billion.<sup>77</sup>

Brazil's focus on forging South-South ties under the PT has been criticized by a number of analysts within and outside the country. Former Brazilian Ambassador to the United States Roberto Abdenur claimed that the South-South approach of the Brazilian Foreign Ministry indoctrinates Brazilian diplomats with "anti-imperialist" and "anti-American" attitudes. He also criticized Lula for embracing autocratic leaders and failing to speak up for democracy and human rights.<sup>78</sup> Another former Ambassador to Washington, Rubens Barbosa, has argued that while the

<sup>74</sup> See, for example, Julia Sweig, "A New Global Player," *Foreign Affairs*, November/December 2010; Hal Brands, *Dilemmas of Brazilian Grand Strategy*, U.S. Army War College, Strategic Studies Institute, Carlisle, PA, August 2010; Peter Hakim, "Rising Brazil: The Choices of a New Global Power," *Política Externa*, July 1, 2010; and "Geopolitical Diary: A Boost for Brazil's Military," *STRATFOR*, December 24, 2008.

<sup>75</sup> Larry Luxner, "Basking in Global Clout, Brazil Ponders Life After Lula," *Washington Diplomat*, September 2010.

<sup>76</sup> IPEA, December 2010, op.cit.

<sup>77</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, March 2012.

<sup>78</sup> Diego Schelp, "Diplomacia de Palanque," *Veja*, September 8, 2010; Otávio Cabral, "Nem na Ditadura," *Veja*, (continued...)

PT's foreign policy has increased Brazil's international influence, it has not been very cost-effective in delivering concrete results. He also maintains that Brazil should devote the same amount of attention to relations with developed nations as it has devoted to South-South ties.<sup>79</sup> Officials from the current and previous Brazilian administrations assert that increased South-South ties have not come at the expense of relations with the developed world. Moreover, they assert that while Brazil supports the spread of democracy and human rights, it believes singling out countries with confrontational declarations and policies is counterproductive.<sup>80</sup>

## Democratization of Global Governance

Building off its traditional support for multilateralism and its more recent focus on South-South ties, Brazil has sought to reinvigorate multilateral institutions by making them more representative of the current geopolitical situation. Brazilian officials assert that the world is becoming multipolar, and global governance institutions—including the International Monetary Fund (IMF), the Group of Eight (G8), and the U.N. Security Council—lack legitimacy and efficacy since they are no longer representative of the global balance of power.<sup>81</sup> In order to address these issues, Brazil has joined with other emerging and developing nations to push for reform. These coalitions include more formal organizations, like the Brazil-Russia-India-China-South Africa (BRICS) group and the India-Brazil-South Africa (IBSA) forum, as well as ad hoc arrangements.

Brazil's efforts have produced mixed results. On the one hand, the country has been successful in securing agreements to redistribute voting power within the IMF and replace the G8 with the more representative G20 as the premier forum for international economic coordination. Likewise, emerging nation coalitions have succeeded in blocking U.S. and European Union attempts to conclude international agreements, such as the Doha trade negotiations and the Copenhagen climate negotiations, without addressing developing nation demands.<sup>82</sup> Efforts to enlarge and reform the U.N. Security Council, however, have been unsuccessful thus far.<sup>83</sup> Some observers have expressed concerns that, by pushing for greater decision-making authority without being prepared for the corresponding responsibilities of leadership, the actions of Brazil and other emerging powers could create instability within the world system.<sup>84</sup>

In addition to seeking greater influence within global governance institutions, Brazil has pushed for a greater role in resolving issues of geopolitical importance. During the Lula Administration, Brazil was somewhat critical of the U.S. role in the Middle East, arguing that the U.N. should

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(...continued)

February 7, 2007.

<sup>79</sup> Rubens Barbosa, "Sobre uma Nova Política," *O Globo* (Brazil), October 26, 2010.

<sup>80</sup> "Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty," Ministério das Relações Exteriores, January 2, 2011; Susan Glasser, "The Soft-Power Power," *Foreign Policy*, December 2010.

<sup>81</sup> Meeting with official from Brazil's Ministry of External Relations, Financial Affairs Office, December 8, 2010; Celso Amorim, "Governance Must Reflect Global Reality," *Financial Times*, November 15, 2010.

<sup>82</sup> Celso Amorim, "The New Geopolitics: Emerging Powers and the Challenges of a Multipolar World," Remarks at the Carnegie Endowment for International Peace, Washington, DC, November 30, 2010; "Voting Power Shift Just Start of IMF Reform, Says Chinese Official," *BBC Monitoring*, November 5, 2010.

<sup>83</sup> William Maclean, "Brazil Says US Spat Signals Tough Security Reform," *Reuters*, September 11, 2010.

<sup>84</sup> Jorge G. Castañeda, "Not Ready for Prime Time," *Foreign Affairs*, vol. 89, no. 5 (September/October 2010); Andrew F. Hart and Bruce D. Jones, "How Do Rising Powers Rise?," *Survival*, vol. 52, no. 6 (November 29, 2010).

oversee negotiations between Israel and the Palestinians and emerging powers should be more involved.<sup>85</sup> Brazil hosted the presidents of Israel and the Palestinian National Authority, and suggested that it might be able to act as a mediator in the conflict. Brazil also recognized Palestine as an independent state within its 1967 borders, setting off a wave of similar recognitions throughout South America.<sup>86</sup> At the September 2011 U.N. General Assembly, President Rousseff called for Palestine's full membership in the United Nations.<sup>87</sup>

Additionally, Brazil has been involved in discussions regarding Iran's nuclear program. In May 2010, Lula worked with his Turkish counterpart to negotiate a deal with Iran under which Iran's enriched uranium would be reprocessed outside the country. The so-called "Tehran Declaration" was similar to a deal put forward in October 2009 by the United States, France, and Russia that had been supported by the International Atomic Energy Agency (IAEA). The Brazilians saw the agreement as a confidence-building measure to bring Iran back to the negotiating table; however, the Obama Administration and European nations viewed the agreement as a delaying tactic, noted that the October 2009 deal was no longer sufficient since Iran had continued to enrich uranium, and pushed ahead with sanctions.<sup>88</sup> Brazil voted against U.N. Security Resolution 1929 (June 2010), saying the council had "lost a historic opportunity to peacefully negotiate the Iranian nuclear program," but agreed to abide by the sanctions.<sup>89</sup> While some analysts dismissed Brazil's efforts as naive and unhelpful,<sup>90</sup> others argued that the negotiation attempt demonstrated Brazil's growing prominence and the potential for new states to play important roles in resolving issues of geopolitical importance.<sup>91</sup>

## U.S.-Brazil Relations

Relations between Brazil and the United States are generally friendly. According to U.S. officials, "as two of the world's largest economies and democracies, with shared values and increasingly converging goals, Brazil and the United States are natural partners in a rapidly changing world."<sup>92</sup> The Obama Administration's National Security Strategy states that the United States "welcome[s] Brazil's leadership and seek[s] to move beyond dated North-South divisions to pursue progress

<sup>85</sup> Iuri Dantas and Fabiola Moura, "Lula Says U.S. Shouldn't Broker Middle East Talks," *Bloomberg*, November 20, 2009.

<sup>86</sup> "Brazilian Minister on Middle East Role," *BBC Monitoring*, January 4, 2010; Sean Goforth, "Brazil's Middle East Roadmap," *World Politics Review*, January 20, 2011.

<sup>87</sup> "Statement by H.E. Dilma Rousseff, President of the Federative Republic of Brazil, at the Opening of the General Debate of the 66<sup>th</sup> Session of the United Nations General Assembly," September 21, 2011, [http://gadebate.un.org/sites/default/files/gastatements/66/BR\\_en\\_0.pdf](http://gadebate.un.org/sites/default/files/gastatements/66/BR_en_0.pdf).

<sup>88</sup> Trita Parsi, "The Turkey-Brazil-Iran Deal: Can Washington Take 'Yes' for an Answer?" *Foreign Policy*, May 17, 2010; "Unexpected US Opposition Overshadows Lula's Successful Iran Nuclear Deal," *Latin American Security & Strategic Review*, May 2010.

<sup>89</sup> "Brazil's Lula Says UN Sanctions a Mistake," *Latin News Daily*, June 10, 2010; "Brazil Will Back Iran Sanctions," *Al Jazeera*, August 11, 2010.

<sup>90</sup> See, for example, Duda Teixeira, "Esperteza Atômica," *Veja*, May 26, 2010; and "An Iranian Banana Skin," *Economist*, June 17, 2010.

<sup>91</sup> See, for example, Erich Follath and Jens Glüsing, "Brazil's Lula Vaults into Big League of World Diplomacy," *Spiegel Online*, May 25, 2010; Carlo Patti, "Brazil and the Nuclear Issues in the Years of the Luiz Inácio Lula da Silva Government (2003-2010)," *Revista Brasileira de Política Internacional*, vol. 53, no. 2 (2010).

<sup>92</sup> William J. Burns, Deputy Secretary of State, "Building a Deeper Partnership with Brazil," Remarks in Rio de Janeiro, Brazil, March 1, 2012.

on bilateral, hemispheric, and global issues.”<sup>93</sup> The United States and Brazil have established over 25 dialogues to enhance coordination and cooperation on a wide variety of issues. Among other topics, the United States and Brazil engage on security, energy, trade, human rights, and the environment.

Although Brazil and the United States share a number of common goals, the countries’ occasionally divergent national interests and independent foreign policies have led to disagreements on trade and political matters. Some long-running disputes include the stalled Doha trade negotiations and Brazilian opposition to U.S. support for cotton producers. Additional differences have emerged in recent years, many of which have centered around the countries’ approaches to foreign policy. In 2010 and 2011, for example, Brazil used its temporary seat on the U.N. Security Council to advocate engagement with internationally isolated regimes like Iran, Libya, and Syria, rather than sanctions, which it views as a prelude to armed conflict. Some analysts and policymakers assert that Brazil’s increasing global prominence and involvement on an array of issues will inevitably lead to disputes with the United States and that managing those disputes in a transparent and respectful manner will be key to maintaining friendly relations moving forward.<sup>94</sup>

As a middle-income country, Brazil does not receive large amounts of U.S. foreign assistance. Brazil received \$25.1 million in U.S. aid in FY2010, \$23.3 million in FY2011, and an estimated \$17.2 million in FY2012. The Obama Administration has requested just \$6.1 million in foreign assistance for Brazil in FY2013. U.S. assistance to the country is transitioning from supporting development programs in Brazil to providing assistance designed to promote development in third countries. About one-third of the FY2013 aid request would be used to strengthen the Brazilian government’s development agency (the Brazilian Cooperation Agency) and implement jointly funded projects in other developing countries.<sup>95</sup>

On September 28, 2012, President Obama signed into law the Continuing Appropriations Resolution, FY2013 (P.L. 112-175). The resolution funds regular foreign aid accounts at the same level as in FY2012 plus 0.612%. The aid allocations for particular countries, such as Brazil, are left to the discretion of the responsible agencies. Until a full year appropriation is approved, however, the State Department and the U.S. Agency for International Development (USAID) plan only to fund programs that are running out of resources or meet some urgent foreign policy priority. The Continuing Appropriations Resolution expires on March 27, 2013.

## Security Cooperation

Although U.S.-Brazilian cooperation on security issues has traditionally been limited, law enforcement and military ties have increased in recent years. Areas of coordination include counternarcotics, counterterrorism, and defense.

<sup>93</sup> White House, *National Security Strategy*, May 2010, p. 44, [http://www.whitehouse.gov/sites/default/files/rss\\_viewer/national\\_security\\_strategy.pdf](http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf).

<sup>94</sup> See, for example, Peter Hakim, “US-Brazil Relations: Expect More Conflict,” *Infolatam*, October 21, 2010; U.S. Ambassador Thomas Shannon, “Prospects for U.S.-Brazil Bilateral Relations,” Remarks at Brazil-U.S. Business Council Annual Plenary Meeting, December 7, 2010; and William J. Burns, Deputy Secretary of State, “Building a Deeper Partnership with Brazil,” Remarks in Rio de Janeiro, Brazil, March 1, 2012.

<sup>95</sup> U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2013*, April 3, 2012, <http://www.state.gov/documents/organization/185015.pdf>.

## Counternarcotics

While Brazil is not a major drug-producing country, it is the second largest consumer of cocaine in the world and serves as a transit country for illicit drugs from neighboring Andean countries destined primarily for Europe. In recognition of these challenges, Brazil has taken several steps to improve its antidrug efforts. In 2004, it implemented an air bridge denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Under its Strategic Border Plan, introduced in June 2011, the Brazilian government has deployed inter-agency resources to strengthen border security in high-risk locations, including unmanned aerial vehicles (UAVs) to monitor illicit activity along its borders and in the remote Amazon region.<sup>96</sup> As part of this effort, Brazil has signed agreements and carried out joint operations with neighboring countries.<sup>97</sup> According to the U.S. Department of State, “Brazil’s focus on inter-agency cooperation and border security resulted in significantly improved interdiction efforts in 2011.” Through October 2011, the federal police seized 15.2 metric tons of cocaine, 87.4 metric tons of marijuana, 194,776 dosage units of ecstasy, 72,492 dosage units of LSD, and 42,000 dosage units of methamphetamine.<sup>98</sup>

The United States and Brazil cooperate on counternarcotics issues in a number of ways. U.S. counternarcotics assistance provides training for Brazilian law enforcement, assists interdiction programs at Brazil’s international airports, supports drug prevention programs, and is designed to improve Brazil’s capacity to dismantle criminal organizations. Brazil received \$1 million in U.S. counternarcotics assistance in FY2010, \$1 million in FY2011, and an estimated \$2.9 million in FY2012. Under the Obama Administration’s request for FY2013, Brazil would receive \$1.9 million in counternarcotics assistance.<sup>99</sup>

Brazil has also served as a bridge between the United States and Bolivia, which expelled the Drug Enforcement Administration (DEA) from its territory in 2008 as a result of alleged interference in the country’s internal affairs. Under a trilateral anti-drug cooperation agreement signed in January 2012, the United States and Brazil are providing assistance to Bolivia in the monitoring and eradication of coca crops. According to the agreement, the United States is responsible for providing monitoring equipment, Brazil is responsible for obtaining and interpreting satellite images, and Bolivia is responsible for conducting any necessary field work.<sup>100</sup>

<sup>96</sup> U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2012 International Narcotics Control Strategy Report (INCSR)*, March 7, 2012, <http://www.state.gov/j/inl/rls/nrcrpt/2012/index.htm>; “Hermes 450: O Vigilante Das Fronteiras Brasileiras,” *Terra* (Brazil), August 25, 2011.

<sup>97</sup> “Brazil-Region: Flying Start for the New ‘Border Strategy’,” *Latin American Security & Strategic Review*, July 2011.

<sup>98</sup> *INCSR*, 2012, op.cit.

<sup>99</sup> U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 2011, and *Congressional Budget Justification for Foreign Operations, Fiscal Year 2013*, April 3, 2012.

<sup>100</sup> “Signing of Trilateral Agreement on the Integrated Monitoring System for Surplus Coca Cultivation Reduction Pilot Project,” Joint Communiqué, January 20, 2012.

## Counterterrorism and the Tri-Border Area<sup>101</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 State Department's *Country Reports on Terrorism*, there are no known operational cells of al Qaeda or Hezbollah-related groups in the hemisphere; however, the United States remains concerned that the proceeds from legal and illegal goods flowing through the TBA could potentially be diverted to support terrorist groups.<sup>102</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.

In December 2010, the U.S. Treasury Department sanctioned Hezbollah's chief representative in South America, Bilal Mohsen Wehbe, for transferring funds collected in Brazil to Hezbollah in Lebanon. According to the Treasury Department, Wehbe and an associate raised more than \$500,000 from Lebanese businessmen in the TBA following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly has overseen Hezbollah's counterintelligence activity in the TBA and has worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.<sup>103</sup>

Beyond efforts in the TBA, the United States has worked bilaterally with Brazil to improve its counterterrorism capabilities. The United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos, and U.S. authorities are currently training Brazilian airline employees to identify fraudulent documents. The State Department's *Country Reports on Terrorism* for 2011 states "the Brazilian government continued to support counterterrorism-related activities, including investigating potential terrorism financing, document forgery networks, and other illicit activity."<sup>104</sup> Brazil has yet to adopt legislation, however, to make terrorism and terrorism financing autonomous offenses. Like many other Latin American nations, Brazil has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as terrorism by repressive military regimes in the past.<sup>105</sup> Nevertheless, some Brazilian officials have pushed for antiterrorism legislation, asserting that the country will face new threats as a result of hosting the 2014 World Cup and the 2016 Olympics.<sup>106</sup>

<sup>101</sup> For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan and June S. Beittel.

<sup>102</sup> U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2011*, July 31, 2012, <http://www.state.gov/j/ct/rls/crt/2011/195546.htm>.

<sup>103</sup> U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," Press Release, December 9, 2010.

<sup>104</sup> *Country Reports on Terrorism 2011*, 2012, op.cit.

<sup>105</sup> "Anti-Terrorism Law Project Scrapped," *Latin American Security & Strategic Review*, January 2008; Juliana Barbassa, "Brazil Denies Terrorists Operate Within Borders," *Associated Press*, September 3, 2011.

<sup>106</sup> Guila Flint, "Jobim Alerta para Ameaça de Atentados e Diz que País Deve se Preparar para Problemas Durante Copa e Olimpíadas," *O Globo* (Brazil), January 26, 2010; "High Risk of Terror Attacks During 2014 World Cup: Police," *Agence France Presse*, November 17, 2011.

## Defense

According to the U.S. Department of Defense, cooperation with Brazil's Ministry of Defense and the Brazilian military is closer today than it has been at any point in over 30 years. The U.S. and Brazilian militaries have worked together closely in Haiti, where Brazil commands the U.N. Stabilization Mission (MINUSTAH). Joint efforts in the aftermath of Haiti's January 2010 earthquake were the largest combined operations of U.S. and Brazilian military forces since World War II. In April 2010, the United States and Brazil signed a Defense Cooperation Agreement designed to promote cooperation in areas such as research and development, technology security, and acquisition of defense products and services. This was followed by a General Security of Military Information Agreement, signed in November 2010, which will facilitate the sharing of classified defense and military information. In an effort to elevate bilateral defense ties, President Rousseff joined with President Obama in April 2012 to launch a presidential-level Defense Cooperation Dialogue. Additional areas of defense cooperation include information exchanges, combined military training, and joint military exercises.<sup>107</sup>

Two pending defense procurement deals could impact future military ties between the United States and Brazil. The Brazilian air force intends to purchase 36 new fighter jets, and the Boeing F/A-18 Super Hornet is one of three finalists along with the Saab JAS-39 Gripen of Sweden and the Dassault Rafale of France. Brazil's National Defense Strategy places significant emphasis on building the country's domestic defense industry, and technology transfer is reportedly a top consideration in the fighter deal. According to U.S. officials, the technology transfer package the United States has offered is unprecedented in the U.S.-Brazil relationship and is the same type of package that the United States provides its closest partners in the North Atlantic Treaty Organization (NATO).<sup>108</sup> Nevertheless, Brazilian officials remain wary of relying on U.S. hardware as a result of past experiences<sup>109</sup> in which the U.S. government blocked sales of Brazilian arms containing U.S. technology.<sup>110</sup> A final decision has been delayed for several years and is reportedly now scheduled for mid-2013.<sup>111</sup>

The U.S. Air Force is currently considering purchasing 20 A-29 Super Tucano light attack aircraft, produced by Brazil's Embraer in partnership with U.S.-based Sierra Nevada, to be provided to the Afghan military for counterinsurgency and training purposes. The Air Force awarded the \$355 million contract to Embraer in late December 2011, but the procurement process was challenged by U.S.-based Hawker Beechcraft. After temporarily suspending the contract in January 2012, the Air Force cancelled the order in late February 2012. Brazilian officials expressed displeasure with the sudden cancellation, and asserted that the decision would not be "conducive to strengthening relations between the two countries on defense affairs."<sup>112</sup> Some reports have suggested that the cancellation was for political, rather than technical reasons, and Sierra Nevada is suing the Air Force to have the original contract reinstated. A second

<sup>107</sup> U.S. Department of Defense, Office of the Secretary of Defense, "Fact Sheet: U.S.-Brazil Defense Cooperation," March 14, 2011.

<sup>108</sup> Jeb Blount and Guillermo Parra-Bernal, "US Jet Contract Decision 'Surprised Brazil Gov't,'" *Reuters*, March 1, 2012.

<sup>109</sup> In 2006, for example, the United States prevented Brazil from selling 24 Super Tucano light attack planes to Venezuela.

<sup>110</sup> "No Brazil Fighter Jet Decision Before Lula Leaves," *Agence France Presse*, December 7, 2010.

<sup>111</sup> Brian Winter, "Brazil Delays Jets Decision Until 2013; Boeing Ascendant," *Reuters*, September 24, 2012.

<sup>112</sup> Joe Leahy, "Brazil Warns US Over Cancelled Aircraft Deal," *Financial Times*, March 2, 2012.

bidding process between the two competitors is now closed and the Air Force expects to announce the winner in early 2013.<sup>113</sup>

## Energy Cooperation

Energy has been another important area of U.S-Brazilian cooperation in recent years. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through the development of alternative energy resources and increased domestic production. In addition to being the world's second-largest producer of ethanol, Brazil currently generates 85% of its electricity through hydropower. Brazil also has recently discovered large offshore oil deposits that have the potential to turn the country into a major oil and gas producer and an important source of energy for the United States.<sup>114</sup> To facilitate greater cooperation in the development of safe, secure, and affordable energy, President Obama and President Rousseff launched a Strategic Energy Dialogue in March 2011.

### Ethanol and Other Biofuels<sup>115</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. In 1975, in response to sharp increases in global oil prices, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol. Brazil now produces some 390,000 barrels per day.<sup>116</sup> Within Brazil, pure ethanol is available at nearly every fueling station and gasoline is required to include a 20% ethanol blend. About 90% of new cars sold in Brazil each year are fitted with “flex-fuel” engines capable of running on fuel blends ranging from pure ethanol to pure gasoline. As a result, ethanol accounts for over half of all fuel pumped in Brazil.<sup>117</sup>

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. 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.<sup>118</sup> Over the past five years, the United States and Brazil have moved forward on all three facets of the agreement. Presidents Obama and Rousseff signed onto a partnership agreement for the development of aviation biofuels in March 2011,<sup>119</sup> and in October 2011, Boeing and Brazil's

<sup>113</sup> Vinod Sreeharsha, “Embraer, Hawker Beechcraft Face Off Again Over Planes for Afghanistan,” *McClatchy Newspapers*, June 15, 2012.

<sup>114</sup> Energy Information Administration (EIA), “Country Analysis Briefs: Brazil,” February 28, 2012.

<sup>115</sup> For more information on biofuels, see CRS Report R41282, *Agriculture-Based Biofuels: Overview and Emerging Issues*, by Randy Schnepf.

<sup>116</sup> EIA, 2012, *op.cit.*

<sup>117</sup> Chris Kraul, “Brazil Raises Cane Over U.S. Ethanol Barriers; Proponents Say Sugar-Based Fuel is a Better Choice than Corn,” *Los Angeles Times*, November 4, 2009; “Brazil: Long-term Ethanol Outlook Remains Bright,” *Oxford Analytica*, October 6, 2009; Leonardo Goy, “Brazil to Cut Ethanol Blend in Gasoline from Oct. 1,” *Reuters*, August 30 2011.

<sup>118</sup> U.S. Department of State, Office of the Spokesman, “Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels,” March 9, 2007, <http://www.state.gov/p/wha/rls/158654.htm>.

<sup>119</sup> The “Partnership for the Development of Aviation Biofuels” agreement is available at [http://www.whitehouse.gov/sites/default/files/uploads/Partnership\\_Development\\_Aviation\\_Biofuels.pdf](http://www.whitehouse.gov/sites/default/files/uploads/Partnership_Development_Aviation_Biofuels.pdf).

Embraer announced plans to build a joint research center.<sup>120</sup> Brazil and the United States have also worked together in a number of Latin American, Caribbean, and African countries. In March 2011, Presidents Obama and Rousseff agreed to commit \$3 million to support the development of legal regimes and domestic biofuels production in the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal.<sup>121</sup> Additionally, the United States and Brazil are working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform.

Brazil and the United States have taken steps to liberalize trade in ethanol over the past year. In December 2011, the Brazilian government issued a resolution to extend its duty-free treatment of imported ethanol until December 31, 2015.<sup>122</sup> Similarly, Congress allowed a 54-cent-per-gallon duty on imported ethanol to expire at the end of 2011. Prior to its expiration, the duty served as a significant barrier to direct imports of Brazilian ethanol in most years. Although some Brazilian ethanol was allowed to enter the United States duty-free after being reprocessed in Caribbean Basin Initiative (CBI) countries, such imports could only account for up to 7% of the U.S. ethanol market. A 2.5% ad valorem tariff on ethanol imports to the United States remains in place permanently unless the Harmonized Tariff Schedule code is changed. A bill introduced in April 2012, H.R. 4621 (Rangel), would authorize the President to enter into negotiations with Brazil to obtain open and reciprocal market access for trade in ethanol products.

## Oil

In recent years, Brazil has discovered substantial new oil fields off its coast that have the potential to turn the country into one of the top five oil and gas producers in the world,<sup>123</sup> and an important source of energy for the United States. The new discoveries are so-called “pre-salt” reserves, located beneath layers of rock and salt up to 23,000 feet below the ocean surface. Analysts have estimated that the total recoverable reserves of pre-salt oil and natural gas may exceed 50 billion barrels of oil equivalent.<sup>124</sup>

In December 2010, the Brazilian Congress approved a new regulatory framework for developing the approximately 70% of pre-salt reserves that have not already been auctioned off.<sup>125</sup> The new framework will increase the state’s role in hopes of using the resources to fuel long-term economic and social development. Among other provisions, the framework establishes state-owned *Petróleo Brasileiro S.A. (Petrobras)* as the sole operator for all new offshore projects; replaces the existing concessionary model with a production sharing regime; guarantees Petrobras a minimum 30% stake in all new joint ventures; creates a new public company—*Petrosal*—to manage the development of the offshore reserves; and creates a new social fund overseen by the Brazilian Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.<sup>126</sup> The development of these reserves may be

<sup>120</sup> Brian Winter, “Insight-U.S. and Brazil: At Last, Friends on Ethanol,” *Reuters*, September 14, 2012.

<sup>121</sup> White House, Office of the Press Secretary, “Fact Sheet: U.S.-Brazil Strategic Energy Dialogue,” March 19, 2011.

<sup>122</sup> Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 94, de 8 de Dezembro de 2011*.

<sup>123</sup> Mark S. Langevin, *Brazil’s Hydrocarbon Bonanza: Can the State Manage Pre-Salt Production for National Development and Geopolitical Power?*, Brazil-Works, Discussion Paper, May 2012.

<sup>124</sup> EIA, 2012, op.cit.

<sup>125</sup> Langevin, 2012, op.cit.

<sup>126</sup> “Brazil Congress Passes Oil Industry Overhaul,” *Reuters*, December 1, 2010; “The Impact of Pre-Salt: A Long- (continued...)”

delayed, however, as there is currently considerable debate within the Brazilian Congress regarding the distribution of oil royalties, and Petrobras is unable to auction the rights to the fields until a new royalties framework is in place.<sup>127</sup>

Exploiting the new fields will be difficult and costly. Some foreign investors have questioned whether Petrobras will be able to access sufficient finance to develop the pre-salt reserves given the enlarged role of the Brazilian government under the new regulatory framework and increased concerns about offshore oil drilling as a result of the 2010 BP oil spill in the Gulf of Mexico.<sup>128</sup> Other analysts maintain that the Brazilian reserves are becoming ever-more attractive as a result of the rising price of oil and Brazil's political stability at a time of conflict in other oil producing nations.<sup>129</sup> Petrobras intends to invest \$141.8 billion in exploration and production between 2012 and 2016, \$67.1 billion of which will go toward developing the pre-salt reserves.<sup>130</sup>

Brazil and the United States are working together under the Strategic Energy Dialogue to foster the safe and efficient development of oil reserves in both countries. Through technical workshops and other activities, government regulators and private industry have exchanged best practices on issues such as spill response, well integrity, subsea containment, the use of dispersants, and national contingency plans. Brazil and the United States have also cooperated on financing. In April 2009, the Export-Import Bank of the United States offered to consider up to \$2 billion in financing to secure the purchase of U.S. goods and services by Petrobras. The Bank has approved \$300 million in financing so far, and has told Petrobras that it would consider increasing its offer above \$2 billion if requested.<sup>131</sup>

## Trade Relations

Trade issues play a central role in U.S.-Brazil relations. Although both countries have been closely involved in global, regional, and sub-regional trade talks, they have frequently disagreed on the substance of trade agreements. Within the World Trade Organization (WTO) Doha Round of multilateral trade negotiations<sup>132</sup> that began in 2001, for example, Brazil has led the G-20 group of developing countries in insisting that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. Similarly, opposition from Brazil and other South American countries effectively killed the U.S.-backed Free Trade Area of the Americas (FTAA) in 2005.

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(...continued)

Term Perspective," *Oxford Analytica*, May 2010.

<sup>127</sup> "Brazil: O Petróleo é Nosso," *Latin American Regional Report: Brazil & Southern Cone*, November 2011; "No Brazil Oil Royalty Vote Before 2012-Minister," *Reuters*, November 17, 2011.

<sup>128</sup> "Brazil's Golden Times Start to Roll," *Latin News Daily*, September 3, 2008; "Hydrocarbons Potential Poses Major Challenges," *Oxford Analytica*, November, 20, 2007; "Brazil Industry: Petrobras Under Pressure," *Economist Intelligence Unit*, August 26, 2010.

<sup>129</sup> Danielle Nogueira and Ramona Ordonez, "Conflitos no Oriente Médio Tornam Pré-Sal Mais Atraente," *O Globo Online* (Brazil), March 2, 2011.

<sup>130</sup> Janes Rocha, "Mesmo com Incertezas, Pré-sal Estimula Projetos," *Valor Online* (Brazil), September 25, 2012.

<sup>131</sup> Export-Import Bank of the United States, "Facts About Ex-Im Bank Loans to Support Petrobras's Purchases of Goods and Services Made by American Workers," May 27, 2011.

<sup>132</sup> For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

During President Obama's March 2011 visit to Brazil, the U.S. and Brazilian governments concluded an Agreement on Trade and Economic Cooperation. The agreement creates a new bilateral trade dialogue designed to foster deeper cooperation on issues such as intellectual property rights, trade facilitation, and technical barriers to trade.<sup>133</sup> During Secretary of State Clinton's April 2012 visit to Brazil, she indicated that the United States is interested in furthering trade relations by negotiating a bilateral investment treaty and eventually a free trade agreement.<sup>134</sup> It is unlikely that the United States and Brazil will complete such agreements in the near-term, however, as Brazil has never ratified a bilateral investment treaty, and the two countries continue to have significant differences regarding trade issues.<sup>135</sup>

Brazil currently benefits from the Generalized System of Preferences (GSP), which provides duty-free tariff treatment to certain products imported from developing countries. According to Brazil's Ministry of Development, about 13% of Brazilian exports fall under the umbrella of GSP.<sup>136</sup> Some Brazil-based subsidiaries of U.S. companies are among those that benefit. On October 21, 2011, the President signed the Trade Adjustment Assistance Extension Act of 2011 (P.L. 112-40), extending GSP until July 31, 2013.<sup>137</sup>

Trade between the United States and Brazil totaled \$74.3 billion in 2011, an increase of 25% over 2010 levels. U.S. exports to Brazil were valued at \$42.9 billion while U.S. imports from Brazil were valued at \$31.4 billion. The United States is Brazil's second-largest trading partner, behind China, and Brazil is the eighth-largest trading partner of the United States. Top U.S. exports to Brazil include machinery, oil and coal, and civilian aircraft and parts. The top U.S. imports from Brazil are crude oil, iron and steel, machinery, and coffee.<sup>138</sup>

In September 2012, H.R. 6539 (Nunes) was introduced in the House. The bill would establish a United States-Brazil Joint Commission on Commerce and Trade. Among other activities, the 16-member bilateral commission would address bilateral trade matters, seek removal of trade barriers, and promote commercial opportunities between the United States and Brazil.

### Cotton Dispute<sup>139</sup>

Over the past eight years, Brazil and the United States have been involved in a dispute over U.S. government support for cotton farmers. In 2002, Brazil went to the WTO to challenge several provisions of the U.S. cotton program. A WTO dispute settlement panel ruled in Brazil's favor in 2004, finding that certain U.S. agricultural support payments and export guarantees were

<sup>133</sup> White House, Office of the Press Secretary, "Strengthening the U.S.-Brazil Economic Relationship," March 19, 2011.

<sup>134</sup> "Clinton: EEUU Quiere Avanzar Hacia Acuerdo de Libre Comercio con Brasil," *Agence France Presse*, April 16, 2012.

<sup>135</sup> See, for example, Doug Palmer and Brad Haynes, "U.S. Warns Brazil on Tariffs, Gets Stinging Rebuke," *Reuters*, September 20, 2012.

<sup>136</sup> "Deputados dos EUA Renovam Redução de Taxas," *Folha de São Paulo*, September 9, 2011.

<sup>137</sup> For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones

<sup>138</sup> U.S. Department of Commerce and Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, March 2012.

<sup>139</sup> For more information on the U.S.-Brazil WTO cotton dispute, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* by Randy Schnepf.

inconsistent with its WTO commitments. Although Congress modified agricultural support programs in 2005, a WTO compliance panel ruled in 2007 that the U.S. actions were insufficient.<sup>140</sup> Following a ruling from a WTO arbitration panel, Brazil announced in March 2010 that it intended to impose retaliatory measures against the United States worth \$829 million, including \$591 million in higher tariffs on a range of U.S. products and \$239 million through suspension of certain intellectual property rights obligations.

The United States reached a temporary agreement with Brazil in June 2010 to avoid the WTO-sanctioned retaliatory measures. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress has an opportunity to adjust the subsidy program.<sup>141</sup> A bill that would prohibit payments to the Brazil Cotton Institute, H.R. 5143 (Kind), was introduced in April 2012. If enacted, the United States would be unable to comply with the terms of the temporary agreement.

Congress is currently considering changes to the cotton program as part of the 2012 farm bill. The Senate passed its version of the bill, S. 3240, on June 26, 2012. The House version, H.R. 6083, was reported out by the Committee on Agriculture on September 13, 2012. Both of the accompanying committee reports (S.Rept. 112-203<sup>142</sup> and H.Rept. 112-669) assert that the bills would make modifications to the cotton program that should allow the United States to meet its WTO obligations and reach a permanent agreement with Brazil. The Brazilian government has objected to several of the provisions that are included in both bills, however, and maintains that some of the potential modifications “seem to have actually made things worse.”<sup>143</sup>

## Intellectual Property Rights

Brazil and the United States have periodically engaged in disputes over intellectual property rights. One issue of particular concern to the U.S. government has been Brazil’s threats to issue compulsory licenses for patented pharmaceutical products. Internationally recognized as having one of the world’s most successful HIV/AIDS programs, Brazil has guaranteed its citizens universal free access to antiretroviral therapy (ART) since 1996. In 2001, Brazil decided to develop generic ART drugs under the compulsory licensing provision of its patent law, and thereby reduce treatment costs. In response, the United States submitted a complaint to the WTO—which it later withdrew—asserting that Brazil’s practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. 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

<sup>140</sup> “WTO Tells U.S. to Act on Illegal Cotton Subsidies,” *Financial Times*, December 19, 2007.

<sup>141</sup> Swell Chan, “U.S. and Brazil Reach Agreement on Cotton Dispute,” *New York Times*, April 6, 2010; Ana Nicolaci da Costa, “Brazil Suspends Retaliation in U.S. Cotton Row,” *Reuters*, June 17, 2010.

<sup>142</sup> The Senate report is available at <http://www.ag.senate.gov/download/?id=5d91a4e4-d805-4623-ae71-8402bd6b912e>.

<sup>143</sup> Letter from Mauro Vieira, Ambassador of Brazil to the United States, to the Honorable Debbie Stabenow, Chairwoman of the Senate Committee on Agriculture, Nutrition & Forestry, July 13, 2012. For more information on the farm bill, see CRS Report R42552, *The 2012 Farm Bill: A Comparison of Senate-Passed S. 3240 and the House Agriculture Committee’s H.R. 6083 with Current Law*, coordinated by Ralph M. Chite.

emergencies in a cost-effective manner. In 2003, the WTO temporarily waived some provisions of the TRIPS agreement to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). The waiver was made permanent in 2005.

Since the public health exception to the TRIPS agreement was made permanent, Brazil has issued, or threatened to issue, compulsory licenses on patented pharmaceutical products on several occasions. In 2007, Brazil broke a patent on a drug used to treat HIV/AIDS that is produced by Merck & Co. in order to save the Brazilian government an estimated \$240 million over five years.<sup>144</sup> Brazil now produces 10 of the 20 drugs used to treat HIV/AIDS and distributes them to African and Latin American countries.<sup>145</sup> In 2009, Brazil suggested that developing countries should be allowed to lift patent rights to produce more vaccine to battle the A(H1N1) flu epidemic.<sup>146</sup>

According to the U.S. Trade Representative (USTR), Brazil has improved its record on protecting intellectual property rights in recent years. In recognition of this progress, USTR lowered Brazil from the Priority Watch List of countries with significant intellectual property rights violations to the Watch List in 2007. The country has remained on the Watch List every year since 2007, however, as USTR remains “concerned about the widespread availability of pirated and counterfeit products in Brazil.” In its *2012 Special 301 Report*, USTR commended Brazil’s enforcement efforts, which led to the seizure of over \$1 billion worth of pirated and counterfeit goods in 2011. USTR also urged Brazil to arrest and prosecute those responsible, and strengthen its copyright law.<sup>147</sup> The United States and Brazil are currently working to improve their cooperation on intellectual property rights issues under the Agreement on Trade and Economic Cooperation signed in March 2011.<sup>148</sup>

## Human Rights

According to the U.S. State Department’s *Country Reports on Human Rights Practices*, the most significant human rights abuses reported in Brazil in 2011 were “substandard prison conditions; human trafficking, especially sex trafficking of children and adolescents; and forced labor.” Other human rights problems included “excessive force, beatings, abuse, and torture of detainees and inmates by police and prison security forces; prolonged pretrial detention and inordinate delays of trials; violence and discrimination against women; violence against children, including sexual abuse; violence based on sexual orientation; discrimination against indigenous persons and minorities; insufficient enforcement of labor laws; and child labor in the informal sector.” The report asserts that the Brazilian government prosecuted officials who committed abuses but lengthy appeals processes remained a problem.<sup>149</sup>

<sup>144</sup> “Brazil to Break Merck AIDS Drug Patent: Government Wants Lower Price on Anti-retroviral Medication,” *Associated Press*, May 4, 2007.

<sup>145</sup> “Brazil Says it has AIDS under Control,” *Agence France Presse*, November 29, 2011.

<sup>146</sup> “Update: Argentina, Brazil Question Swine Flu Vaccine Patents,” *CNN Money*, July 24, 2009.

<sup>147</sup> U.S. Trade Representative, *Special 301 Report*, April 2012, [http://www.ustr.gov/sites/default/files/2012%20Special%20301%20Report\\_0.pdf](http://www.ustr.gov/sites/default/files/2012%20Special%20301%20Report_0.pdf).

<sup>148</sup> The agreement is available at [http://www.whitehouse.gov/sites/default/files/uploads/Brazil\\_ATEC.pdf](http://www.whitehouse.gov/sites/default/files/uploads/Brazil_ATEC.pdf).

<sup>149</sup> U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, *Country Reports on Human Rights Practices for 2011*, May 24, 2012, <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>.

## Trafficking in Persons<sup>150</sup>

According to the U.S. State Department's *Trafficking in Persons Report*, Brazil does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. As a result, it is listed as a Tier 2 country.<sup>151</sup> Brazil is a large source country for men, women, and children trafficked for commercial sexual exploitation. Some are exploited in sex trafficking within the country while others are trafficked to neighboring countries or abroad to Europe and the United States. Brazil is also a source country for men and children subject to forced labor within the country.<sup>152</sup> Between 25,000 and 40,000 Brazilian men have reportedly been recruited to labor in slave-like conditions, typically on cattle ranches, logging and mining camps, and sugar-cane plantations.<sup>153</sup>

Over the past year, the Brazilian government has taken a number of actions to address the problem of human trafficking. The Brazilian Tourism Ministry began a campaign against sex tourism, asking websites to remove content related to sex tourism and distributing posters warning of criminal penalties for the sexual exploitation of minors.<sup>154</sup> The Ministry of Labor's mobile units rescued 2,428 victims from slave-like labor conditions, provided \$3.4 million in back-pay and damages to rescued workers, and maintained a "dirty list" of 294 employers that are responsible for slave-like labor. Additionally, the Brazilian government secured convictions in nine human trafficking cases. At the same time, government-provided services for trafficking victims remained inadequate, only 10% of slave-like labor cases were criminally prosecuted, and a significant number of those rescued from slave-like labor were re-trafficked.

The State Department report offers a number of recommendations for Brazil. It calls for the Brazilian government to increase efforts to investigate and prosecute trafficking offenses, and adopt legislation to apply more stringent sentences to trafficking offenders. It also calls for the Brazilian government to increase dedicated funding to provide specialized services to trafficking victims. Moreover, the State Department report suggests that Brazil should enhance collaboration between government entities, and increase anti-trafficking training for law enforcement and judicial officials.<sup>155</sup>

<sup>150</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

<sup>151</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 subject to U.S. sanctions since 2003.

<sup>152</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2012*, June 19, 2012, <http://www.state.gov/j/tip/rls/tiprpt/2012/index.htm>.

<sup>153</sup> Christopher Looft, "Senator's Trial Points to Modern-Day 'Slaves' in Brazil," *InSight: Organized Crime in the Americas*, March 9, 2012.

<sup>154</sup> "Brazil Takes on Websites that Promote Sex Tourism," *Associated Press*, March 27, 2012.

<sup>155</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2012*, June 19, 2012.

## Violent Crime and Abuses by Police

Most observers agree that the related problems of urban crime, illicit drug use, 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 prevalent in urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. Violence traditionally has been linked to turf wars being waged between rival gangs for control of the drug industry or to clashes between drug gangs and police officers, some of whom have formed paramilitary militias that rid their communities of drug gangs only to engage in the very same illicit activities.

As police forces in São Paulo and Rio de Janeiro have employed strong-arm tactics designed to curb rampant criminality, some human rights groups have raised concerns over extrajudicial killings. 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.”<sup>156</sup> Indeed, more than 11,000 people were killed by the two police forces between 2003 and 2009. Although the officers involved reported nearly all of the killings as legitimate acts of self defense, or “resistance killings,” a two-year investigation by Human Rights Watch concluded that “a substantial portion of the alleged resistance killings reported ... [were] in fact extrajudicial executions.” The Human Rights Watch report also indicated that those police officers responsible for extrajudicial killings enjoy near total impunity. For example, of the over 7,800 complaints against police officers recorded by the Rio Police Ombudsman's Office between 2000 and 2009, only 42 generated criminal charges by state prosecutors and just 4 led to convictions.<sup>157</sup>

Analysts have long 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; however, there have been a number of efforts in recent years to improve the situation. During the Lula Administration, federal government expenditures on public security more than tripled.<sup>158</sup> Under the National Program for Public Safety with Citizenship (*Programa Nacional de Segurança Pública com Cidadania*, PRONASCI), the Brazilian government improved coordination of federal violence prevention and law enforcement strategies, and placed greater emphasis on social policies and human rights.<sup>159</sup> In September 2012, President Rousseff signed legislation criminalizing membership in militias, paramilitary organizations, and death squads. Affiliation with such groups—which often include members of the police, military, and fire squads—is now punishable with four to eight years in jail.<sup>160</sup>

Some state level efforts have also improved. One of the more high profile examples is the state of Rio de Janeiro's “Favela Pacification Program.” Whereas previous law enforcement efforts generally centered around quick raids followed by long periods of government neglect, the favela pacification program is designed to establish a permanent state presence in areas controlled by

<sup>156</sup> “Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil,” *States News Service*, November 15, 2007.

<sup>157</sup> Human Rights Watch, *Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo*, December 2009, <http://www.hrw.org/sites/default/files/reports/brazil1209webwcover.pdf>.

<sup>158</sup> “Recent Public Security Policies in Brazil,” Document provided in a meeting with officials from Brazil's Ministry of External Relations, December 9, 2010.

<sup>159</sup> Joe Bateman, “Brazilian Citizen Security Policies: Variety of Experiences Useful in Regional Debates,” *Washington Office on Latin America (WOLA)*, August 22, 2012.

<sup>160</sup> “Brasil: Será Delito Integrar Grupos de Exterminio, Milicias y Paramilitares,” *Agence France Presse*, September 28, 2012.

organized crime. Under the initiative, elite police units enter favelas and clear them of drug gangs. Newly recruited Police Pacification Units (*Unidades de Polícia Pacificadora*, UPPs) then set up a permanent security presence, and other governmental institutions establish basic social services. UPPs are now present in 28 favelas and have enjoyed considerable success thus far. According to a study of the first 13 UPPs established, intentional homicides decreased 58%, deaths for “resisting authority” declined 98%, and robbery decreased 54% over four-and-a-half years. Although there have been significant increases in reports of other criminal offenses—such as domestic violence (290%), rape (164%), and theft (55%)—some analysts think the increases may reflect a greater willingness by favela residents to report crimes to the police.<sup>161</sup>

## Race and Discrimination

People of African descent in Brazil, also known as Afro-Brazilians, have long been disproportionately affected by the country’s high level of inequality. Little concrete information was available, however, until the Brazilian government began to collect better statistics on Afro-Brazilians during the Cardoso Administration (1995-2002). These statistics—which found significant education, health, and wage disparities between Afro-Brazilians and Brazil’s general population—prompted the Brazilian government to enact antidiscrimination and affirmative action legislation.

Brazil now has the most extensive antidiscrimination and affirmative action legislation of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas to increase minority representation in government service. 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. In 2010, Brazil enacted the Statute of Racial Equality, which offers tax incentives for enterprises that undertake racial inclusion, stipulates that the government shall adopt affirmative action programs to reduce ethnic inequalities, and reaffirms that African and Brazilian black history should be taught in all elementary and middle schools, among other provisions. Most recently, in August 2012, Brazil adopted an affirmative action law that requires federal universities to reserve half of their spots for graduates of public high schools and distribute those spots according to the racial makeup of each state.<sup>162</sup> Although most Brazilians favor government efforts to combat social exclusion, affirmative action initiatives have been somewhat controversial.<sup>163</sup>

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative recognizes that Brazil and the United States are multi-ethnic, multi-racial democracies, and seeks to promote equality of opportunity for the members of all racial and ethnic communities. To that end, Brazil and the United States share best practices through activities such as training programs, workshops, technical expert exchanges, scholarships, and public-private partnerships.<sup>164</sup> Current areas of focus include expanding access to education for students of African descent, eliminating racial health disparities, mitigating environmental

<sup>161</sup> “UPPs Succeed in Lowering Violent Crime Rates,” *Latin News Daily*, September 19, 2012.

<sup>162</sup> Simon Romero, “Brazil Enacts Affirmative Action Law for Universities,” *New York Times*, August 30, 2012.

<sup>163</sup> Diogo Schelp, “Queremos Dividir o Brasil como na Foto?” *Veja*, September 2, 2009; “Affirming a Divide,” *Economist*, January 28, 2012.

<sup>164</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, “U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality,” April 11, 2012.

impacts in communities of African descent, addressing challenges in criminal justice systems, and guaranteeing equal access to economic opportunities.<sup>165</sup> Congress called for continued U.S. support for the Joint Action Plan in the report (H.Rept. 112-331) accompanying the Consolidated Appropriations Act of 2012 (P.L. 112-74).

## 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. The Amazon also holds 10% of the world's carbon stores and absorbs nearly 2 billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the mitigation of climate change. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.<sup>166</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. The human population grew from 6 million in 1960 to 25 million in 2010, and approximately 20% of the Brazilian Amazon has now been deforested as a result of settlements, roads, logging, farming and other activities.<sup>167</sup>

Recognizing that continued destruction of the Amazon is damaging to Brazil's global image and could threaten energy generation and agricultural production in the future,<sup>168</sup> the Brazilian government has implemented a series of policies designed to slow deforestation. For example, the Lula and Rousseff Administrations have significantly expanded the country's nature reserves, bringing Brazil's total area of protected land to nearly 300,000 square miles.<sup>169</sup> Likewise, the Brazilian government adopted a plan to reduce the rate of Amazon deforestation by half—based on the 1996-2005 average—to 2,300 square miles per year by 2017, and reduce Amazon deforestation by 80% by 2020. To meet these targets, the Brazilian government is increasing surveillance, replanting over 21,000 square miles of forest, and financing sustainable development projects in areas where the local economy depends on logging.<sup>170</sup> Brazil appears to be on track to achieve its goals, as annual deforestation has fallen from about 10,700 square miles in 2004 to about 2,500 square miles in 2011.<sup>171</sup> There is considerable debate as to whether these decreases are the result of government policies or changing economic circumstances, such as lower commodity prices. One recent study, which examined deforestation in the Brazilian

<sup>165</sup> U.S. Department of State, Office of the Spokesperson, "U.S.-Brazil Joint Action Plan Technical Meeting," August 20, 2012.

<sup>166</sup> "Brazil: Global Warming Risks Threaten Amazonia," *Oxford Analytica*, March 16, 2009; Conor Foley, "The End of the Amazon?," *Foreign Policy*, June 2009; 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.

<sup>167</sup> Bryan Walsh, "Amazonia: What's Happening to the World's Biggest Rain Forest?," *TIME*, January 18, 2012.

<sup>168</sup> See, for example, Fabiana Frayssinet, "Climate Change-Brazil: Farmers 'Have Good Reason to Worry'," *Inter Press Service*, September 21, 2011; and "Amazonian Deforestation May Cut Rainfall by a Fifth: Study," *Agence France Presse*, September 5, 2012.

<sup>169</sup> "Brazil: Government Policy for Amazon Still Ambiguous," *Latin News Weekly Report*, May 22, 2008; "In Anticipation of Rio+20, Brazil Creates New Nature Reserves and Closes Major Land-fill," *MercoPress*, June 7, 2012.

<sup>170</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report: Brazil & Southern Cone*, December 2008; "Brazil: Climate Credentials to the Fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

<sup>171</sup> Fabiana Frayssinet, "Climate Change: Brazil Perfects Monitoring of Amazon Carbon Emissions," *Inter Press Service*, August 27, 2012.

Amazon between 2005 and 2009, found that about half of the reduction in deforestation was attributable to the Brazilian government's conservation policies.<sup>172</sup>

Some environmentalists are concerned that government policy changes may halt or even reverse Brazil's recent progress in reducing deforestation. In December 2011, President Rousseff signed a law transferring responsibility for environmental oversight of non-federal lands from Brazil's federal environmental agency, the *Instituto Brasileiro do Meio Ambiente e dos Recursos* (IBAMA), to local officials. While the federal government maintains that local officials are better placed to manage such resources, critics argue that local authorities lack the necessary finances and are more susceptible to intimidation and corruption.<sup>173</sup> Many environmentalists are also concerned about potential changes to Brazil's forest code—a law that requires rural landowners to set aside between 20% and 80% of their land for natural vegetation. The Brazilian Congress approved a major overhaul of the code in April 2012. Although President Rousseff vetoed some of the most controversial provisions, the final version relaxes conservation requirements for environmentally sensitive areas like river banks, reduces reforestation requirements for land that has already been deforested, and decreases the total amount of forest that must be preserved.<sup>174</sup> Supporters of the reform assert that it is necessary in order to bring farmers into compliance with the law, and argue that the updated forest code remains among the strictest regulations of privately-owned property in the world.<sup>175</sup>

U.S. environment programs in Brazil are designed to support tropical forest 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 supports community groups, governments, and other organizations working throughout the Amazon Basin to conserve the forest's biodiversity. USAID provided Brazil with \$14 million for environmental programs in FY2010, \$11.5 million in FY2011, and an estimated \$10 million in FY2012.<sup>176</sup> Although the Obama Administration did not request any aid for environmental programs in Brazil for FY2013, the report (S.Rept. 112-172) accompanying the Senate version of the annual foreign aid appropriations bill, S. 3241, recommends \$10 million to continue USAID's activities in the Brazilian Amazon.

In August 2010, the United States and Brazil signed a debt-for-nature agreement under the Tropical Forest Conservation Act of 2008 (P.L. 105-214). According to the agreement, the United States will reduce Brazil's debt payments by \$21 million over five years. In exchange, the Brazilian government will commit those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in endangered areas outside of the Amazon such as the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.<sup>177</sup>

<sup>172</sup> Juliano Assunção, Clarissa C. e Grandour, and Rudi Rocha, *Deforestation Slowdown in the Legal Amazon: Prices or Policies*, Climate Policy Initiative, Working Paper, Rio de Janeiro, February 6, 2012, <http://climatepolicyinitiative.org/wp-content/uploads/2012/03/Deforestation-Prices-or-Policies-Working-Paper.pdf>.

<sup>173</sup> Paulo Prada, "Special Report: Brazil Backslides on Protecting the Amazon," *Reuters*, August 3, 2012.

<sup>174</sup> "Environmental Law in Brazil: Compromise or Deadlock?," *Economist*, June 2, 2012; Fernanda Krakovics, "Ruralistas Vencem, e Senado Aprova Novo Código Florestal," *O Globo* (Brazil), September 26, 2012.

<sup>175</sup> Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," *Reuters*, June 1, 2011; Kátia Abreu, "Código Florestal e a Busca da Perfeição," *Folha de São Paulo*, September 29, 2012.

<sup>176</sup> U.S. Agency for International Development (USAID), *CN #122*, August 18, 2011; USAID, *CN #90*, July 12, 2012.

<sup>177</sup> U.S. Department of State, Office of the Spokesman, "Debt-for-Nature Agreement to Conserve Brazil's Tropical Forests," August 12, 2010. For more information on the Tropical Forest Conservation Act, see CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. (continued...)

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