



# Brazil-U.S. Relations

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## Summary

As its economy has grown to be the eighth largest in the world, Brazil has consolidated its power in South America, extended its influence to the broader region, and become increasingly prominent on the world stage. The Obama Administration's national security strategy 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 over the past two years—such as different policy approaches toward the situations in Honduras and Iran—Brazil and the United States continue to engage on a number of issues, including counternarcotics, counterterrorism, energy security, trade, human rights, and the environment.

Dilma Rousseff of the ruling center-left Workers' Party (*Partido dos Trabalhadores*, PT) was inaugurated to a four-year presidential term on January 1, 2011. She is Brazil's first female president. Rousseff inherits a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010). She has pledged continuity, maintaining generally orthodox economic policies while continuing to assert a role for the state in development. Her 10-party electoral coalition holds significant majorities in both houses of Brazil's legislature. Although this legislative strength should enable Rousseff to pursue her agenda, keeping the unwieldy coalition together will likely prove challenging. Additional challenges for the Rousseff Administration include strengthening public security, improving the quality of government services, and addressing the country's overburdened infrastructure.

With a gross national income (GNI) of \$1.6 trillion, Brazil is the largest economy in Latin America. Over the past eight 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, which has added 30 million people over the past eight years and now accounts for a majority of the population. In 2010, the value of Brazil's exports reached some \$202 billion, contributing to a trade surplus of \$20.3 billion. The country's current economic strength is the result of a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have also enabled Brazil to better absorb international shocks like the recent global financial crisis, from which Brazil emerged relatively unscathed. Although current conditions and Brazil's recent performance suggest the country will sustain solid economic growth rates in the near term, several constraints on mid- and long-term growth remain.

Previous Congresses have demonstrated considerable interest in U.S.-Brazil relations, particularly energy and trade issues. Several pieces of legislation were introduced during the 111th Congress, including a bill (S. 587) that would have provided \$6 million to expand U.S.-Brazil biofuels cooperation, and a bill (H.R. 5439) that would have offset U.S. contributions to a fund for Brazilian cotton farmers—created as a result of a World Trade Organization dispute—by reducing subsidy payments for U.S. cotton farmers. These issues, as well as other topics in U.S.-Brazil relations, are likely to remain on the agenda of the 112<sup>th</sup> Congress. 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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## Background

A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity—including 60% of the Amazon rainforest—and significant natural resources. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Brazil is the fifth-most populous country in the world with 201 million citizens, primarily of European, African, or mixed descent.<sup>1</sup> With a gross national income (GNI) of \$1.6 trillion in 2009, Brazil’s diversified economy is the eighth largest in the world and the largest in Latin America. Per capita GNI is only \$8,040, however, and the country has an unequal income distribution.<sup>2</sup>

Brazil has long held potential to become a world power, but its rise to prominence has been curtailed by setbacks, including 21 years of military rule, political instability, and uneven economic growth.<sup>3</sup> Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in some other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. During the first decade after its return to democracy, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office and the other was impeached on corruption charges. Brazil was one of the last countries in the region to move away from state-led development; significant market-oriented policies were not implemented until the administration of Fernando Henrique Cardoso (1995-2002).

### Brazil in Brief

Population: 201 Million

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

Religion: 74% Roman Catholic

Official Language: Portuguese

Life Expectancy: 72.6 years

Literacy Rate: 88%

Poverty Rate: 22.9%

Approximate Size: Slightly Smaller than the United States

GNI (2009, Atlas Method): \$1.6 Trillion

GNI per Capita (2009, Atlas Method): \$8,040

**Sources:** State Department Background Note, Oxford Analytica, World Bank

<sup>1</sup> Brazil has never had a large indigenous population. Today, Brazil’s indigenous population consists of roughly 600,000 persons, the majority of whom reside on indigenous lands in the Amazon and elsewhere. U.S. Department of State, *Country Reports on Human Rights Practices 2009: Brazil*, March 11, 2010.

<sup>2</sup> World Bank, “World Development Indicators,” available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

<sup>3</sup> For a historical overview of Brazil’s political development, see Riordan Roett, *The New Brazil* (Washington, DC: Brookings Institution, 2010).

Cardoso, a prominent sociologist of the centrist<sup>4</sup> Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), was elected in 1994 as a 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, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Although Cardoso’s popularity declined considerably during his second term as Brazil dealt with a series of financial crises, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has enjoyed over the past decade.<sup>5</sup>

**Figure 1. Map of Brazil**



**Source:** Map Resources. Adapted by CRS Graphics.

<sup>4</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. 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>5</sup> Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997; Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004.

## Political Situation

Dilma Rousseff of the ruling center-left<sup>6</sup> Workers' Party (*Partido dos Trabalhadores*, PT) was inaugurated to a four-year presidential term on January 1, 2011. She inherits a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010), during whose administrations the foundations for the country's current levels of economic growth and social inclusion were laid and built upon.<sup>7</sup> Rousseff has pledged to consolidate and expand the economic and social gains made under her predecessor. Her multiparty electoral coalition—composed of 10 parties of varying sizes and ideologies—holds significant majorities in both houses of Brazil's legislature. Although this legislative strength should enable Rousseff to pursue her policy agenda, keeping the unwieldy coalition together will likely prove challenging, especially when seeking passage of reforms that have previously stalled in Congress. Additional challenges for the Rousseff Administration include strengthening public security, improving the quality of government services, and addressing the country's overburdened infrastructure.

### The Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was first 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. Although Lula continued to advocate for stronger state support for Brazil's poor during the campaign, he moderated his earlier leftist rhetoric and promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. In doing so, Lula was able to calm international investors and win over portions of the Brazilian electorate that were disenchanted by economic stagnation and high unemployment at the conclusion of President Fernando Henrique Cardoso's eight years in power. After failing to win an absolute majority of the vote in the first round, Lula easily defeated the PSDB's José Serra—who served in Cardoso's cabinet—in the second round runoff election with over 61% of the vote.

During his first term, President Lula maintained the market-oriented economic policies associated with his predecessor while placing a greater emphasis on reducing poverty. By the end of his term, President Cardoso had established a three-pronged macroeconomic policy consisting of a primary fiscal surplus, an inflation target, and a floating exchange rate. Lula strengthened the policy by raising the primary budget surplus, granting additional autonomy to the Central Bank, and enacting social security and tax reforms. Although the Lula Administration tightly controlled expenditures, it also reorganized and expanded some of the social programs initiated under Cardoso. One conditional cash transfer program, known as *Bolsa Família* (Family Grant), provides monthly stipends to some 12.4 million poor families (49 million people) in exchange for

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<sup>6</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>7</sup> "Brazil's presidential election – Lula's legacy," *The Economist*, September 30, 2010; Juan Forero, "Cardoso vs. Lula: Two Brazilian presidents vie over who turned country around," *Washington Post Foreign Service*, October 30, 2010; Cristiano Romero, "O legado de Lula na economia," *Valor Online* (Brazil), December 29, 2010.

ensuring that their children attend school and receive proper medical care.<sup>8</sup> Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in corruption scandals. However, a congressional inquiry eventually cleared the president of any direct responsibility and Lula was elected to a second term in October 2006, defeating the PSDB's Gerardo Alckmin in a second round runoff with 61% of the vote.

After primarily focusing on economic stability during his first term, Lula established a larger role for the Brazilian state in the economy 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 like *Minha Casa, Minha Vida* (My House, My Life), an attempt to increase formal housing for low-income Brazilians.<sup>9</sup> Over the course of Lula's eight years in office, Brazil's per capita gross national income nearly tripled, and some 30 million people entered the middle class.<sup>10</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>11</sup> (For more information, see "Oil" below). Although some analysts have criticized Lula for allegedly protecting corrupt officials and not doing more to pass what they view as crucial political and economic reforms,<sup>12</sup> he won the support of the vast majority of the Brazilian public during his two terms, leaving office with an 87% approval rating.<sup>13</sup>

## 2010 Elections

On October 31, 2010, Dilma Rousseff of the ruling center-left Workers' Party (PT) won 56% of the vote to defeat José Serra of the centrist Brazilian Social Democracy Party (PSDB) in a second round presidential runoff election.<sup>14</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>15</sup> Given the strength of the Brazilian economy and Lula's overwhelming popularity, both major candidates largely had promised continuity during the campaign, with

<sup>8</sup> Some four million poor families exited the Bolsa Familia program between 2008 and 2010. 80% of those who left did so as a result of securing higher incomes and living standards and effectively graduating from the program. "Bolsa Família benefits 49 m Brazilians," *Latin News Daily*, June 1, 2010.

<sup>9</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>10</sup> World Bank, "World Development Indicators," available at <http://data.worldbank.org/data-catalog/world-development-indicators>; Juan Forero, "In Brazil, the 'middle path' helps expand the middle class," *Washington Post*, January 3, 2010.

<sup>11</sup> "Brazil congress approves oil law," *Latin News Daily*, December 2, 2010.

<sup>12</sup> 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," *The Economist*, September 30, 2010.

<sup>13</sup> Bradley Brooks, "Lula's legacy, leaving behind a transformed Brazil," *Associated Press*, December 27, 2010.

<sup>14</sup> "Brazil: Lula will bolster—and may hinder—Rousseff," *Oxford Analytica*, November 1, 2010.

<sup>15</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 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.



Rousseff pledging to consolidate gains made during the Lula Administration and Serra proposing 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 Minister of the Presidency from 2005-2010, before resigning to seek the presidency. Rousseff headed a 10-party coalition with a running-mate from the centrist 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 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. Together, the 10 parties of Rousseff's electoral coalition hold over 60% of the seats in both houses of Congress, large enough majorities to amend the constitution.<sup>16</sup>

### President Dilma Rousseff

- Born in 1947 (63 years old) to a Bulgarian immigrant father and a Brazilian mother.
- Joined various clandestine leftist groups following the installation of a military government in 1964. She was arrested in 1970 and tortured and imprisoned by the military regime until 1972.
- Upon her release, she completed a degree in economics.
- Returned to politics in the late 1970s, taking part in the amnesty campaign for political prisoners and the founding of a center-left political party.
- During the 1980s and 1990s, she worked as a consultant to political leaders and served in various positions in the state of Rio Grande do Sul, including President of the Economy and Statistics Foundation and State Secretary of Mines, Energy, and Communication.
- Joined President Lula's transition team in 2002 and served as Brazil's Minister of Mines and Energy from 2003-2005.
- Named Lula's Chief of Staff in 2005, where she was put in charge of strategic projects such as the government's housing program, investments in infrastructure through the Growth Acceleration Program, and coordinating the design of the new regulatory framework for developing Brazil's recently discovered offshore oil reserves.
- Resigned as Chief of Staff to run for President in 2010.
- Inaugurated to a four-year presidential term in January 2011.

**Source:** Presidência da República Federativa do Brasil. Available at <http://www.presidencia.gov.br/presidenta/view>.

## Prospects for the Rousseff Administration

Since taking office, President Rousseff has reiterated her pledge to consolidate and build upon the policies of the previous administration. On economic policy, she has signaled that she will maintain the mix of generally orthodox policies pursued under Lula, including a primary fiscal surplus and an autonomous Central Bank. Rousseff has also pledged to hold down—or even cut—government spending, and pursue reform of what many analysts consider to be an overly

<sup>16</sup> Tribunal Superior Eleitoral, accessed on January 5, 2010, available at <http://www.tse.gov.br/internet/index.html>.

burdensome tax system.<sup>17</sup> Nonetheless, the new President has made it clear that she will continue to assert a key role for the state in fostering development. She will likely expand several of Lula's social programs, like *Bolsa Familia*; continue implementing the new regulatory framework for Brazil's recently discovered offshore oil reserves; and maintain the National Economic and Social Development Bank's (BNDES) extensive financing for Brazilian industry.<sup>18</sup> Other issues likely to require Rousseff's attention include attracting investment to develop the country's overburdened infrastructure, improving the quality of public education and health services, and reducing high rates of crime and violence in Brazil's urban centers.

Although Rousseff's electoral coalition enjoys significant majorities in Congress, the new president will likely need to overcome a number of challenges in order to implement her agenda. The 10 parties that backed Rousseff are ideologically diverse, and while some support the policy agenda of the PT, others—including the large PMDB—have demonstrated more interest in the distribution of government resources through the federal budget and the control of ministries and state enterprises.<sup>19</sup> Given that President Lula often struggled to hold together a similarly unwieldy coalition despite his considerable political acumen and public support, intra-coalition negotiations will likely prove challenging for the less experienced and less charismatic Rousseff.<sup>20</sup> Indeed, some sectors of the coalition have already voiced discontentment as a result of Rousseff's cabinet appointments.<sup>21</sup> These intra-coalition differences are likely to increase as the administration moves from transition to governance. Rousseff may be able to win widespread support for expanding social programs and other spending priorities. However, it will likely be considerably more difficult to find majorities willing to slow the growth in government expenditures, simplify the tax system, and undertake other reforms that many analysts believe are necessary to maintain Brazil's current rate of economic growth.<sup>22</sup>

## Economic Conditions

With a gross national income (GNI) of \$1.6 trillion, Brazil is the largest economy in Latin America and the eighth largest in the world.<sup>23</sup> Over the past eight years, the country has enjoyed macroeconomic stability and average annual growth of over 4%. This growth has been driven by

<sup>17</sup> Jonathan Wheatley & John Paul Rathbone, "Reformers fret as Brazilians mull voting for more of the same," *Financial Times*, September 30, 2010; Carla Simoes & Alexander Cuadros, "Rousseff Vows to Eradicate Brazil Poverty Without Overspending," *Bloomberg*, November 1, 2010; "Rousseff plans to cut Brazil payroll taxes—report," *Reuters*, November 15, 2010.

<sup>18</sup> Ian Bremmer and Chris Garman, "Embracing Lula's pragmatic legacy," *New York Times*, November 4, 2010.

<sup>19</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.

<sup>20</sup> "Will Rousseff be able to appease the PT and the PMDB?" *Latin American Weekly Report*, January 6, 2011; "Brazil: Rousseff risks rough ride, 'Lula dependence,'" *Oxford Analytica*, January 6, 2011; "Brazil politics: Rousseff in charge," *Economist Intelligence Unit*, December 29, 2010.

<sup>21</sup> Vera Rosa & 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>22</sup> "Lula's legacy leaves Rousseff tough choices," *Financial Times*, January 5, 2011; Brian Winter & Natuza Nery, "Special report: Dilma Rousseff, Brazil's 'automatic pilot,'" *Reuters*, September 23, 2010.

<sup>23</sup> World Bank, "World Development Indicators," available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

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 30 million people over the past eight years and now accounts for a majority of the population.<sup>24</sup> In 2010, the value of Brazil’s exports reached some \$202 billion, with top exports including commodities such as iron ore, oil, sugar, soy, chicken, and beef, as well as manufactured goods such as automobiles and aircraft. Brazil’s 2010 trade surplus amounted to \$20.3 billion.<sup>25</sup> The country’s current economic strength is the result of a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have also enabled Brazil to better absorb international shocks like the recent global financial crisis, from which Brazil emerged relatively unscathed.<sup>26</sup> Although current conditions and Brazil’s recent performance suggest the country will sustain solid economic growth rates in the near term, several constraints on mid- and long-term growth remain.

## Background on Reform and Stabilization

Following the return to democracy in the late 1980s and early 1990s, Brazil struggled with persistently 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 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>27</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

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<sup>24</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 \$900 and \$2,000 per month, now account for half of the Brazilian population. “Brazil: Poverty falls, but regional inequities remain,” *Oxford Analytica*, June 21, 2010; Cristiano Romero, “O Legado de Lula na economia,” *Valor Online* (Brazil), December 29, 2010.

<sup>25</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, January 2011.

<sup>26</sup> “Brazil takes off,” *The Economist*, November 12, 2009.

<sup>27</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.

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 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>28</sup>

## Global Financial Crisis

In stark contrast to previous international shocks, the recent global economic downturn has had only a limited effect on Brazil. The country experienced a brief recession in 2009, causing an economic contraction of 0.6%, before rebounding quickly with estimated growth of 7.7% in 2010.<sup>29</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>30</sup> As the fallout of the financial crisis spread around the world, the Brazilian government injected at least \$100 billion of additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate. President Lula also acted to boost 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>31</sup>

Although Brazil recovered quickly from the financial crisis, the lingering effects of the global downturn are now presenting challenges for the country's economy. Slow growth rates have kept interest rates low in Europe and the United States, which has encouraged investors looking for higher returns to flood Brazil and other developing nations with foreign capital. In addition to fueling growth, these inflows are causing excessive appreciation of local currencies.<sup>32</sup> The value of the Brazilian *real* has increased nearly 40% against the dollar over the past two years.<sup>33</sup> While this steep increase in value has boosted domestic purchasing power, it is putting inflationary pressure on the economy and hurting the competitiveness of Brazilian industry and agricultural exports. In addition to accusing China, the United States, and others of fueling "currency wars" by engaging in monetary interventions that amount to "competitive devaluation" of their currencies,<sup>34</sup> the Brazilian government has taken a number of steps to discourage inflows of

<sup>28</sup> Antonio Rodriguez, "Brazil switches roles with helping hand for IMF," *Agence France Presse*, October 5, 2009.

<sup>29</sup> "Country Report: Brazil," *Economist Intelligence Unit*, January 2011.

<sup>30</sup> "IMF Executive Board Concludes 2010 Article IV Consultation with Brazil," *International Monetary Fund*, August 5, 2010; Cristiano Romero, "O Legado de Lula na economia," *Valor Online* (Brazil), December 29, 2010.

<sup>31</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>32</sup> Ian Talley, "IMF says capital controls can slow investment flows in India, Brazil," *Wall Street Journal*, January 6, 2011.

<sup>33</sup> Jonathan Wheatley & Joe Leahy, "Trade war looming, warns Brazil," *Financial Times*, January 10, 2011.

<sup>34</sup> Brazil has been critical of the U.S. Federal Reserve's policy of quantitative easing (QE2). For more information on the policy, see CRS Report R41540, *Quantitative Easing and the Growth in the Federal Reserve's Balance Sheet*, by Marc Labonte; 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.

foreign capital. These include instituting a financial operations tax on foreign capital inflows, which started at 2% and has since increased to 6%, and imposing reserve requirements on domestic banks' foreign exchange positions. The measures appear to have had little effect to date, but the Rousseff Administration has indicated that it will pursue additional policies as needed.<sup>35</sup>

## Potential Constraints on Growth

Brazil's current conditions and recent economic performance suggest the country will sustain solid growth rates in the near term; however, most analysts assert that several constraints on mid- and long-term growth remain. These include a sizeable public debt burden, high taxes and interest rates, low investment and savings rates, rigid labor laws, and overburdened transportation and energy infrastructure.<sup>36</sup> Net public debt has been falling in recent years, but remains relatively high at 41% of gross domestic product (GDP).<sup>37</sup> Likewise, the Brazilian government has slowed the rate of debt reduction by reducing its primary fiscal surplus—the budget surplus before debt payments—to enable increased government spending.<sup>38</sup> According to some analysts, public expenditure is now growing faster than GDP and the quality of spending is declining. They assert that a greater percentage of public expenditure needs to be dedicated to long-term investments such as infrastructure, education, and research and development.<sup>39</sup> President Rousseff acknowledged the need for greater public investment during her inaugural address. She is expected to increase funding for education, implement a second phase of the Growth Acceleration Program—an infrastructure investment program introduced under President Lula—as well as offer incentives to attract significant private sector investment in roads, ports, and airports in preparation for hosting the 2014 World Cup and 2016 Olympics.<sup>40</sup>

## Social Indicators

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 5% of the population account for some 40% of the country's wealth.<sup>41</sup> Like elsewhere in Latin America, Brazil's high inequality is partially a legacy of extreme land concentration among the country's

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<sup>35</sup> "Brazil: Reserve requirements will not weaken real," *Oxford Analytica*, January 11, 2011.

<sup>36</sup> "Prospects 2011: Brazil," *Oxford Analytica*, November 26, 2010; World Economic Forum, *The Global Competitiveness Report 2010-2011*, Geneva, 2010; National Confederation of Industry (CNI), *Industry and Brazil: An agenda to grow more and better*, Brasilia, 2010.

<sup>37</sup> "Prospects 2011: Brazil," *Oxford Analytica*, November 26, 2010.

<sup>38</sup> Maria Luiza Rabello & Iuri Dantas, "IMF View of Brazil Finances is 'Stupid,' Mantega Says," *Business Week*, January 28, 2011; "Brazil – Mantega's clever accounting," *Latin News Daily*, January 25, 2011.

<sup>39</sup> Paulo Vieira da Cunha & Vinod Thomas, "The Brazilian Economy: The Choices for Dilma," Remarks at the Inter-American Dialogue, Washington, DC, November 10, 2010.

<sup>40</sup> "Pronunciamento da Presidenta da República, Dilma Rousseff, à Nação Brasileira, no Parlatório do Palácio do Planalto," Ministério das Relações Exteriores, January 1, 2011; Brian Ellsworth, "Brazilian infrastructure lags behind the boom," *Reuters*, November 24, 2010.

<sup>41</sup> "Brazil: Middle class expands but inequality persists," *Oxford Analytica*, February 8, 2010.

elite. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.<sup>42</sup> The Brazilian government has also acknowledged that there is a racial component to inequality. People of African descent in Brazil, also known as Afro-Brazilians, constitute 67% of the poor.<sup>43</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>44</sup> More recent evidence, however, indicates that Brazil has made substantial progress in the last few years as a result of the Lula Administration's social policies and the country's steady economic growth. Since 2003, the proportion of poor has fallen from 33.2% to 22.9% of the population, the gap between the wealthiest 10% and poorest 10% has fallen from 23 times to 18 times, and 30 million Brazilians have moved into the middle class.<sup>45</sup> Likewise, infant mortality has fallen below 23 deaths per 1,000 live births and the proportion of underweight children has fallen below 2%.<sup>46</sup> Transfer programs like *Bolsa Família* have been credited for much of this progress. Although such efforts will continue to play a major role in Brazilian social policy, many observers assert that improving the quality of social services—especially in education and healthcare—is crucial for reducing social disparities and fostering development in the long run.<sup>47</sup>

## 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 world power. Brazilian foreign policy has traditionally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.<sup>48</sup> Adherence to these principles has enabled Brazil to maintain peaceful relations with all 10 of its neighbors<sup>49</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

<sup>42</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>43</sup> Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010.

<sup>44</sup> Organization for Economic Cooperation and Development, *Economic Survey of Brazil 2005*, March 2005.

<sup>45</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 \$900 and \$2,000 per month, now account for half of the Brazilian population. "Brazil: Poverty falls, but regional inequities remain," *Oxford Analytica*, June 21, 2010.

<sup>46</sup> "Brazil claims it has eradicated extreme poverty," *EFE News Service*, December 14, 2010.

<sup>47</sup> "Bolsa Família benefits 49m Brazilians," *Latin News Daily*, June 1, 2010; "How to get children out of jobs and into school: The limits of Brazil's much admired and emulated anti-poverty programme," *The Economist*, July 29, 2010; Alexei Barrionuevo, "Educational Gaps limit Brazil's Reach," *New York Times*, September 4, 2010; "Resuscitating Brazil's health," *Latin News Daily*, November 8, 2010.

<sup>48</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>49</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).

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>50</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); however, it has demonstrated a preference for resolving issues, when possible, through regional forums that do not include the United States.

## South American Integration

Brazil's regional integration efforts began in 1991 when it joined with Argentina, Uruguay, and Paraguay to establish the Common Market of the South (Mercosur), an organization intended to promote economic integration and political cooperation among the countries.<sup>51</sup> Although the 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 calls for an incremental path to full economic integration, yet only a limited customs union has been achieved in its 20-year existence. The integration process received a boost in August 2010 when the member states finally agreed on long-stalled issues such as a common customs code and the elimination of double tariffs on non-Mercosur goods transported between countries.<sup>52</sup> The agreement still needs to be ratified by each country's legislature, however, and a number of other issues like the dispute resolution process and trade asymmetries still need to be addressed.<sup>53</sup> Chile, Bolivia, Colombia,

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<sup>50</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>51</sup> For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>52</sup> "Mercosur wraps up successful summit," *EFE News Service*, August 3, 2010; "Las reglas comerciales comunes tendran que ser ratificadas por el Congreso de cada socio; Aprobaron el Código que regirá el comercio dentro del Mercosur," *Clarín*, August 4, 2010.

<sup>53</sup> "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

Ecuador, Peru, and Venezuela have all become associate members<sup>54</sup> of Mercosur, and Brazil has advocated full membership for each country.<sup>55</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>56</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>57</sup> Brazilian diplomacy also successfully convinced each of the Unasur member states to join the associated South American Defense Council, designed to boost regional cooperation on security policies.<sup>58</sup> Within the Council, South American countries have discussed defense spending and reviewed defense agreements with extra-regional powers, such as a controversial proposal to provide the United States access to seven Colombian military bases.<sup>59</sup> Notwithstanding its many successes, Unasur's capacities are 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>60</sup>

By promoting integration through organizations like Mercosur and Unasur, Brazil has been able to solidify its role 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. Likewise, 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. Nonetheless, 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>61</sup> it has been less willing to make unilateral concessions to foster development and good will among its neighbors. For example, when President Lula agreed to pay Paraguay a higher price for energy generated by a jointly owned hydroelectric plant, he was heavily criticized by some within Brazil and the Brazilian Congress blocked his efforts.<sup>62</sup> Given that the country is still resolving its own

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<sup>54</sup> Associate members have no voting rights and need not observe Mercosur's common external tariff. Venezuela will be a full member once its accession is ratified by the Paraguayan legislature.

<sup>55</sup> Juliana Rocha, "Colômbia negocia sua adesão ao Mercosul," *Folha de São Paulo*, January 20, 2011; "Lula defiende adhesión de Bolivia, Chile, Colombia, Ecuador y Perú a Mercosur," *EFE News Service*, December 20, 2010.

<sup>56</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>57</sup> "Unasur assigns itself some authority," *Latin News Daily*, November 26, 2010.

<sup>58</sup> "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

<sup>59</sup> "Brasil propondrá creación de un Consejo de Paz y Seguridad de la Unasur," *EFE News Service*, January 13, 2010.

<sup>60</sup> Andrés Serbin & 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.

<sup>61</sup> "Brazil invested 1.7bn dollars in international cooperation 2005-2009," *BBC Monitoring*, January 14, 2011.

<sup>62</sup> "Lula criticised for 'partisan' foreign policy," *Latin American Weekly Report*, January 22, 2009; Pedro Servin, (continued...)



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.<sup>63</sup>

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

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 2,200 officers and soldiers currently on the ground, Brazil is the largest peacekeeping contingent in Haiti.<sup>64</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 \$47 million combined.<sup>65</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>66</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 of Latin American and Caribbean States, which includes all of the countries of the hemisphere except Canada and the United States. Although Brazil has certainly 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>67</sup>

## **Emerging Global Role**

As Brazil’s economy has grown to be the eighth 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

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“Paraguay-Brazil energy treaty going nowhere fast,” *Associated Press*, December 16, 2009.

<sup>63</sup> “Brazil eager to be a force of change and moderation,” *Deutsche Welle*, December 30, 2010.

<sup>64</sup> Brazil lost 18 soldiers and two civilians in the January 2010 Haitian earthquake. “Brasil pide compromiso renovado de comunidad internacional con Haití,” *Agence France Presse*, January 12, 2011; Wilson Tosta & Glauber Goncalves, “Ex-comandante defende que Exército continue no Haiti,” *Estado de São Paulo*, November 5, 2010.

<sup>65</sup> \$R790 million, converted on January 28, 2011. Instituto de Pesquisa Econômica Aplicada (Ipea), *Cooperação Brasileira Para o Desenvolvimento Internacional : 2005-2009*, Brasília, December 2010.

<sup>66</sup> “Chávez, Lula Promote Competing Visions,” *Miami Herald*, August 10, 2007.

<sup>67</sup> 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; Andres Oppenheimer, “Brazil stretching clout to Central America,” *Miami Herald*, June 7, 2009.

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, most 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>68</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>69</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>70</sup> These diplomatic and development ties have coincided with increased commercial relations. While Brazil's total world trade expanded by over 350% between 2002 and 2010, trade with Africa, the Arab League, and Latin America and the Caribbean each expanded by nearly 400%. Likewise, trade with India grew by over 600% and trade with China grew by nearly 1400%. China is now Brazil's top trading partner, with total trade valued at \$56.4 billion.<sup>71</sup>

Brazil's focus on forging South-South ties under the PT has been criticized by a number of analysts within and outside of 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>72</sup> Another former Ambassador to Washington, Rubens Barbosa, has argued that while the PT's foreign policy has increased Brazil's international influence, it has not been very cost-effective in delivering concrete results. Likewise, he has argued that Brazil should devote the same amount of attention to relations with developed nations as it has devoted to South-South ties.<sup>73</sup> Officials from the current and previous Brazilian administrations assert that increased

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<sup>68</sup> Julia Sweig, "A New Global Player," *Foreign Affairs*, Nov/Dec. 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; "Geopolitical Diary: A Boost for Brazil's Military," *Stratfor*, December 24, 2008.

<sup>69</sup> Larry Luxner, "Basking in Global Clout, Brazil Ponders Life After Lula," *Washington Diplomat*, September 2010.

<sup>70</sup> Instituto de Pesquisa Econômica Aplicada (Ipea), *Cooperação Brasileira Para O Desenvolvimento Internacional: 2005-2009*, Brasília, D.F., December 2010.

<sup>71</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2011.

<sup>72</sup> Diego Schelp, "Diplomacia de palanque," *Veja*, September 8, 2010; Otávio Cabral, "Nem na Ditadura," *Veja*, February 7, 2007.

<sup>73</sup> Rubens Barbosa, "Sobre uma Nova Política," *O Globo* (Brazil), October 26, 2010.

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>74</sup> Nonetheless, President Rousseff has repeatedly stated that she intends to forge closer relations with the United States and speak out more on issues of democracy and human rights during her administration.<sup>75</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>76</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 (BRIC) group and the India-Brazil-South Africa (IBSA) forum, as well as ad hoc arrangements. They have 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, they 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>77</sup> Efforts to enlarge and reform the U.N. Security Council, however, have been unsuccessful.<sup>78</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>79</sup>

In addition to seeking greater influence within formal 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 oversee negotiations between Israel and the Palestinians and emerging powers should be more involved.<sup>80</sup> Brazil hosted the Presidents of Israel and the Palestinian National

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<sup>74</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>75</sup> Eleonora Gosman, “Dilma llega con apoyo al país, pero también marca diferencias,” *Clarín* (Argentina), January 30, 2011; Lally Weymouth, “An interview with Dilma Rousseff, Brazil’s president-elect,” *Washington Post*, December 3, 2010.

<sup>76</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>77</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>78</sup> William Maclean, “Brazil says US spat signals tough security reform,” *Reuters*, September 11, 2010.

<sup>79</sup> Andrew F. Hart & Bruce D. Jones, “How Do Rising Powers Rise?,” *Survival*, vol. 52, no. 6 (November 29, 2010).

<sup>80</sup> Iuri Dantas & Fabiola Moura, “Lula Says U.S. Shouldn’t Broker Middle East Talks,” *Bloomberg*, November 20, (continued...)

Authority, suggesting 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>81</sup> Likewise, Brazil became involved in discussions regarding Iran’s nuclear program. In May 2010, President Lula worked with his Turkish counterpart, Prime Minister Erdoğan, to negotiate a nuclear swap deal with Iran that was similar to a deal put forward by the International Atomic Energy Agency (IAEA) in October 2009. 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 dismissed the agreement as a delaying tactic, and decided to push ahead with sanctions. Brazil then voted against the U.N. Security Council resolution to impose sanctions, saying the council had “lost a historic opportunity to peacefully negotiate the Iranian nuclear program.”<sup>82</sup> Nonetheless, Brazil has agreed to abide by the sanctions.<sup>83</sup>

## Relations with the United States

Relations between the United States and Brazil may be characterized as generally friendly despite a number of disagreements in recent years. The United States increasingly regards Brazil as a significant power, especially in its role as a stabilizing force in Latin America. 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 on bilateral, hemispheric, and global issues.”<sup>84</sup> Brazil and the United States have worked closely on a wide range of issues, from promoting bio-fuels development in the Western Hemisphere and Africa (see “Ethanol and Other Biofuels”) to providing security and fostering development in Haiti. Bilateral cooperation has increased in recent years, as reflected in the continuing high-level contacts between the two governments.

Although Brazil and the United States share a number of common goals, the countries’ independent foreign policies have led to periodic disputes on trade and political matters. Some long-running disputes include Brazil’s opposition to the U.S. tariff on Brazilian ethanol and the stalled Doha Round of WTO negotiations. Additional differences have emerged in the past two years. After both countries condemned the ouster of the president of Honduras in June 2009, Brazil criticized the United States for failing to put more pressure on Honduras to reverse the situation and for immediately accepting the country’s November 2009 elections.<sup>85</sup> Brazil also reacted negatively to an agreement between the United States and Colombia to provide the United

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<sup>81</sup> Sean Goforth, “Brazil’s Middle East Roadmap,” *World Politics Review*, January 20, 2011; “Brazilian minister on Middle East role,” *BBC Monitoring*, January 4, 2010

<sup>82</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; “Brazil’s Lula says UN sanctions a mistake,” *Latin News Daily*, June 10, 2010.

<sup>83</sup> “Brazil will back Iran sanctions,” *Al Jazeera English*, August 11, 2010.

<sup>84</sup> White House, *National Security Strategy*, May 2010, p. 44.

<sup>85</sup> For more information on the Honduras political crisis, see CRS Report R41064, *Honduran Political Crisis, June 2009-January 2010*.

States access to seven Colombian military bases, however, it later signed its own Defense Cooperation Agreement with the United States.<sup>86</sup> Most recently, Brazil and the United States have clashed over policy toward Iran. After Brazil and Turkey negotiated a nuclear swap agreement with Iran in May 2010, the United States rejected it as insufficient and pushed ahead with a new round of sanctions.<sup>87</sup> Some analysts 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>88</sup> President Rousseff has indicated that building stronger relations with the United States will be one of the priorities of her administration, and President Obama announced he will visit Brazil for the first time in March 2011.<sup>89</sup>

As a middle-income country, Brazil does not receive large amounts of U.S. foreign assistance. Brazil received \$21.5 million in U.S. aid in FY2009 and an estimated \$25.1 million in FY2010. Under the Obama Administration's request, Brazil would receive \$20.9 million in FY2011. U.S. assistance priorities in Brazil include supporting environmental programs and strengthening local capacity to address threats to the Amazon, promoting renewable energy and energy efficiency to mitigate climate change, strengthening the professionalism and peacekeeping capabilities of the Brazilian military, and reducing the transmission of communicable diseases.<sup>90</sup>

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

As noted above, the Obama Administration's National Security Strategy recognizes Brazil as an emerging center of influence whose cooperation should be sought when addressing regional and global problems. Current issues in U.S.-Brazil relations include counternarcotics and counterterrorism efforts, energy security, trade, human rights, and the environment.

### Counternarcotics

Although Brazil is not a major drug-producing country, it serves as a major transit country for illicit drugs from neighboring Andean countries destined primarily for Europe. Urban gangs—such as São Paulo's First Command of the Capital (*Primeiro Comando da Capital*, PCC) and Rio de Janeiro's Red Command (*Comando Vermelho*, CV)—have begun playing greater roles in narcotics and weapons smuggling, establishing their presence in other countries in the region and forging ties with Colombian and Mexican traffickers. Brazil has also become the second-largest consumer (after the United States) of cocaine in the world.

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<sup>86</sup> "Brazil-US rows building over Colombia, biofuel, trade: FM" *Agence France Presse*, August 2, 2009.

<sup>87</sup> "Unexpected US opposition overshadows Lula's successful Iran nuclear deal," *Latin American Security & Strategic Review*, May 2010; "Brazil's Lula says UN sanctions a mistake," *Latin News Daily*, June 10, 2010.

<sup>88</sup> Tom Shannon, "Prospects for U.S.-Brazil bilateral relations," Remarks at Brazil-U.S. Business Council Annual Plenary Meeting, December 7, 2010; Peter Hakim, "US-Brazil Relations: Expect More Conflict," *Infolatam*, October 21, 2010.

<sup>89</sup> Lally Weymouth, "An interview with Dilma Rousseff, Brazil's president-elect," *Washington Post*, December 3, 2010; Natuza Nery, "Por nova relação, Obama deve visitar Brasil em março," *Folha de São Paulo*, January 25, 2011.

<sup>90</sup> U.S. State Department, *FY2011 Congressional Budget Justification for Foreign Operations*, February 1, 2010.

With U.S. support, Brazil has taken several steps to improve its counternarcotics capabilities. In 2004, Brazil 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. Brazil has also worked with its neighbors to construct Joint Intelligence Centers at strategic points along its borders and invested in a sensor and radar project called the Amazon Vigilance System in an attempt to control illicit activity in its Amazon region. In 2009, Brazil's federal police captured 18.9 metric tons of cocaine, 1.4 metric tons of cocaine base, 513 kilograms of crack cocaine, 150.6 metric tons of marijuana, 3.3 kilograms of heroin, and 183.3 tons of precursor chemicals.<sup>91</sup>

Brazil received \$1 million in U.S. counternarcotics assistance in FY2009 and again in FY2010, and would receive \$1 million in FY2011 under the Obama Administration's request. U.S. counternarcotics assistance includes training for Brazil's federal police, support for interdiction programs at Brazil's ports, and efforts to strengthen the capabilities of special investigations units.<sup>92</sup>

### Counterterrorism and the Tri-Border Area<sup>93</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 Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds through illicit activities and from sympathizers in the sizable Middle Eastern communities in the region. Indeed, reports have indicated that Hezbollah earns over \$10 million per year from criminal activities in the TBA.<sup>94</sup> Although it has been reported that al Qaeda's former operations chief, Khalid Shaikh Mohammed, lived in the Brazilian TBA city of Foz de Iguazu in 1995 and Brazilian authorities arrested Ali al-Mahdi Ibrahim—who was wanted by Egypt for his alleged role in the 1997 massacre of tourists at Luxor—in the TBA in 2003, the State Department report states that there have been no corroborated reports that any Islamic groups have an operational presence in the area.<sup>95</sup> The United States joined with the countries of the TBA in the “3+1 Group on Tri-Border Area Security” in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

The United States has also worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos. In 2010, Brazil and the United States signed a Defense Cooperation Agreement and gave initial approval to an Open Skies agreement that would safeguard aviation security.<sup>96</sup> While the State Department

<sup>91</sup> U.S. Department of State, *International Narcotics Control Strategy Report 2010, Volume 1*, March 1, 2010.

<sup>92</sup> U.S. State Department, *FY2011 Congressional Budget Justification for Foreign Operations*, February 1, 2010.

<sup>93</sup> For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

<sup>94</sup> Alain Rodier, “Notes D’Actualité N° 168: Les Trafics de Drogue du Hezbollah en Amérique Latine,” *Centre Français de Recherche sur le Renseignement*, April 14, 2009.

<sup>95</sup> “Latin America: A Safe Haven for Al Qaeda?” *STRATFOR*, September 4, 2003; U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

<sup>96</sup> U.S. Department of State, Office of the Spokesman, “U.S.-Brazil Defense Cooperation Agreement,” April 12, 2010; and “United States and Brazil Agree on Open Skies,” December 6, 2010.

Country Reports on Terrorism lauded the Brazilian government for a number of counterterrorism actions, it also noted that Brazil's overall commitment to combating terrorism was undermined by the government's failure to strengthen its legal counterterrorism framework by passing long-stalled anti-money laundering and counterterrorism bills.<sup>97</sup> Brazil, like many Latin American nations, 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>98</sup> Nonetheless, some Brazilian officials continue to push 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>99</sup>

## Energy Security

In the last few years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through increased domestic production and the development of alternative energy resources. In addition to being the world's second largest producer of ethanol, Brazil currently generates over 85% of its electricity through hydropower.<sup>100</sup> At the same time, Brazil has attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program. More recently, Brazil's state-run oil company, Petrobras, a leader in deep-water oil drilling, has discovered what may be the world's largest oil field find in 25 years.<sup>101</sup>

## Ethanol and Other Biofuels<sup>102</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 response to sharp increases in oil prices, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol in 1975. Today, Brazil produces almost 27.8 billion liters (7.3 billion gallons) of ethanol annually. About 17% of the ethanol produced in Brazil is exported, and the remainder is consumed domestically.<sup>103</sup> Within Brazil, pure ethanol is available at nearly every fueling station and gasoline is required to include a 25% 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

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<sup>97</sup> U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

<sup>98</sup> "Anti-terrorism law project scrapped," *Latin American Security & Strategic Review*, January 2008.

<sup>99</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.

<sup>100</sup> "Brazil: Hydrocarbons potential poses major challenges," *Oxford Analytica*, November 20, 2007.

<sup>101</sup> "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

<sup>102</sup> For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

<sup>103</sup> Brazilian Sugarcane Industry Association (UNICA), "Quotes & Stats," available at <http://english.unica.com.br/dadosCotacao/estatistica/>.

from pure ethanol to pure gasoline. As a result, ethanol now accounts for over half of all fuel pumped in Brazil.<sup>104</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 in the Western Hemisphere. The agreement involves: (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and, (3) multilateral efforts to advance the global development of biofuels. The first countries to receive U.S.-Brazilian assistance were the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis.<sup>105</sup>

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. On November 20, 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.<sup>106</sup> The United States and Brazil are also working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform.

Despite this progress, several potential obstacles to increased U.S.-Brazil cooperation on biofuels exist, including current U.S. tariffs on most Brazilian ethanol imports. The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.<sup>107</sup> Some Brazilian ethanol is processed at plants in the Caribbean for duty-free entry into the United States, but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff.

## **Nuclear Energy**

Between the mid-1970s and the mid-1980s, Brazil's military government sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. Brazil's 1988 constitution limits nuclear activity to peaceful purposes, however, and in 1991, Brazil and Argentina reached an agreement not to pursue nuclear weapons. Although Brazil subsequently joined the Nuclear Nonproliferation Treaty (NPT) and a number of other multilateral nonproliferation regimes, some international observers became concerned when Brazil commissioned a uranium enrichment plant in 2004 and refused to give International

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<sup>104</sup> Katia Cortes, "Brazil to Raise Ethanol Mixed with Gasoline to 25%," *Bloomberg*, April 29, 2010; 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.

<sup>105</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.

<sup>106</sup> U.S. Department of State, Office of the Spokesman, "Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development," November 20, 2008.

<sup>107</sup> For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.



Atomic Energy Association (IAEA) inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel, and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.<sup>108</sup> Brazil remains opposed to signing the NPT Additional Protocol, which would grant IAEA inspectors increased access to its nuclear program.<sup>109</sup>

Although Brazil currently has just two operational nuclear power plants, the industry is expected to expand. Construction of a third nuclear plant was approved under the Lula Administration, and the current Minister of Mines and Energy has announced plans to approve four additional plants within the next year. The Minister has asserted that the expansion of nuclear power is the only way that Brazil can meet the fast-growing energy demand of its population while avoiding massive carbon emissions.<sup>110</sup> Brazil has 139,900-278,700 metric tons of unidentified uranium resources.<sup>111</sup>

## Oil

The recent discovery of substantial oil fields in the Santos Basin, which extends 500 miles along the Brazilian coast, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The Tupi field, discovered in November 2007, has confirmed oil reserves of between five and eight billion barrels, and it is estimated that the entire Santos Basin could hold up to 50 billion barrels of oil. In December 2010, the Brazilian Congress approved a new regulatory framework for developing the offshore reserves that 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* (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 Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.<sup>112</sup>

Exploiting the new fields will be difficult and costly, however, as the oil is located in the so-called "pre-salt" layer, beneath layers of rock and salt up to 7,000 meters below the seabed. Brazil's

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<sup>108</sup> "New Round of Nuclear Enrichment Scare Stories," *Latin American Weekly Report*, February 12, 2006; Bernard Aronson, "Brazil's Chance to Lead on Nuclear Containment," *Wall Street Journal*, March 18, 2005; Sharon Squassoni and David Fite, "Brazil as Litmus Test: Resende and Restrictions on Uranium Enrichment," *Arms Control Today*, October 2005.

<sup>109</sup> Bernard Gwertzman, "Brazil's Take on Iran and the NPT," *Council on Foreign Relations*, May 19, 2010.

<sup>110</sup> "Brazil Eletrobras expects \$2 bln loan for nuclear," *Reuters*, January 18, 2011; "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report: Brazil & Southern Cone*, November 2008.

<sup>111</sup> *Uranium 2009: Resources, Production and Demand*, Organization for Economic Cooperation and Development Nuclear Energy Agency & the International Atomic Energy Agency, 2010.

<sup>112</sup> "Brazil Congress passes oil industry overhaul," *Reuters*, December 1, 2010; "The Impact of Pre-Salt: A Long-Term Perspective," *Oxford Analytica*, May 2010.

state-owned oil company, Petrobras, has announced that it will need \$270 billion in investment over the next 10 years to develop the reserves.<sup>113</sup> Some foreign investors have questioned whether the company will be able to access sufficient finance 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>114</sup> Nonetheless, Petrobras secured a record \$41.5 billion from financial markets in 2009, including a preliminary commitment of \$2 billion from the Export-Import Bank of the United States, \$12.5 billion over 20 years from Brazil's state-owned National Bank of Economic and Social Development (BNDES), and \$10 billion over 10 years from China in exchange for guaranteed oil deliveries of 150,000 barrels per day (bdp) in 2009 and 200,000 bpd for the next decade.<sup>115</sup>

## Trade Issues

Trade issues are central to the bilateral relationship between Brazil and the United States. Both countries have been heavily involved in subregional, regional, and global trade talks; however, they have frequently disagreed on the substance of trade agreements. In 2005, opposition from Brazil and other South American countries effectively scuttled the U.S.-backed Free Trade Area of the Americas (FTAA). Since then, the United States has pushed for bilateral and subregional free trade agreements while Brazil has focused its efforts on strengthening the Common Market of the South (Mercosur). Despite these differences, trade between the United States and Brazil totaled \$46.3 billion in 2010. Total trade increased nearly 30% over 2009, with U.S. exports to Brazil valued at \$27 billion and U.S. imports from Brazil valued at \$19.3 billion. The United States is now Brazil's second largest trading partner while Brazil is the eleventh largest trading partner of the United States.<sup>116</sup> Brazil has traditionally benefited from the Generalized System of Preferences (GSP), which provides duty-free tariff treatment to certain products imported from developing countries. GSP expired on December 31, 2010.<sup>117</sup>

## Doha Round of the World Trade Organization Talks<sup>118</sup>

Brazil has had a leading role in the Doha round of the World Trade Organization (WTO) talks. In 2003, Brazil led the G-20 group of developing countries' efforts to insist that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, but

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<sup>113</sup> "Brazil needs \$270 bln over 10-yr for deepwater oil," *Reuters*, March 19, 2009.

<sup>114</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>115</sup> Export-Import Bank of the United States, *Summary of Minutes of Board of Directors*, April 14, 2009; "Brazil: Da Silva Goes to China," *Stratfor*, May 19, 2009; "China's Sinopec negotiating first oil exploration deal in Brazil," *EFE News Service*, June 29, 2009; "Brazil industry: Petrobras under pressure," *Economist Intelligence Unit*, August 26, 2010.

<sup>116</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2011.

<sup>117</sup> For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jonesa

<sup>118</sup> For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

formal talks were suspended indefinitely in July 2006 after key negotiating groups failed to break a deadlock on the issue of agricultural tariffs and subsidies. In June 2007, negotiators from India and Brazil walked out of a round of informal talks with representatives from the United States and the European Union (EU), refusing to open their markets further unless U.S. and EU subsidies were substantially reduced. In recent years, trade ministers have repeatedly failed to reach an agreement to conclude the Doha round and the U.S. negotiating position remains a source of contention with Brazil.<sup>119</sup>

### **World Trade Organization Cotton Dispute<sup>120</sup>**

Over the past eight years, Brazil and the United States have been involved in a dispute over U.S. subsidies 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 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>121</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. In order to avoid these retaliatory measures, the United States reached an agreement with Brazil in June 2010. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide Brazil \$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 a chance to adjust the subsidy program in the 2012 Farm Bill.<sup>122</sup>

### **Intellectual Property Rights**

Brazil and the United States have periodically engaged in disputes over intellectual property rights (IPR). 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,<sup>123</sup> 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, thereby

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<sup>119</sup> "Uncertainty Lies Ahead for WTO," *Oxford Analytica*, July 31, 2008; "Brazil-US rows building over Colombia, biofuels, trade: FM," *Agence France Presse*, August 2, 2009.

<sup>120</sup> For more information on U.S.-Brazil WTO disputes, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* by Randy Schnepf.

<sup>121</sup> "WTO Tells U.S. to Act on Illegal Cotton Subsidies," *Financial Times*, December 19, 2007.

<sup>122</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>123</sup> Universal free access to ART has increased average HIV/AIDS survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996. HIV prevalence has been stable at 0.5% for the general population in Brazil since 2000. Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

reducing treatment costs by 80%. In response, the United States submitted a complaint to the WTO—which was later withdrawn—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 IPR, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In 2003, the WTO temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). The waiver was made permanent in 2005.<sup>124</sup> Since then, 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 import a cheaper version from India. 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>125</sup> According to Brazil’s Ministry of Health, tough negotiations with pharmaceutical companies have saved the country \$1.1 billion.<sup>126</sup>

According to the U.S. Trade Representative, Brazil has improved its record on protecting intellectual property rights in recent years. Brazil works with the United States to address IPR issues through the U.S.-Brazil Bilateral Consultative Mechanism and the U.S.-Brazil Commercial Dialogue. Likewise, the Brazilian government has a national action plan to address piracy and intellectual property crimes. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant IPR violations to the Watch List in 2007. Brazil has remained on the Watch List every year since 2007. In order to build on progress that has been made, USTR recommends that Brazil strengthen its IPR enforcement legislation, more vigorously address book and internet piracy, and sign the World Intellectual Property Organization Internet Treaties.<sup>127</sup>

## **Human Rights**

The U.S. State Department’s Country Report on Human Rights on Brazil covering 2009 states that the “federal government generally respected the human rights of its citizens; however, there continued to be numerous, serious abuses, and the records of several state governments were poor.”<sup>128</sup> Some human rights issues of particular concern include ongoing crime and human rights abuses by police, race and discrimination, and trafficking in persons.

### **Violent Crime and Human Rights Abuses by Police**

Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening

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<sup>124</sup> Mary Anastasia O’Grady, “Brazil Could Turn a Trade Victory into Defeat,” *Wall Street Journal*, December 16, 2005.

<sup>125</sup> “Update: Argentina, Brazil Question Swine Flu Vaccine Patents,” *CNN Money*, July 24, 2009.

<sup>126</sup> “Haggling Saves Brazil \$1 Billion on AIDS Drugs,” *Reuters News*, November 13, 2007.

<sup>127</sup> U.S. Trade Representative, *Special 301 Report*, April 30, 2010.

<sup>128</sup> U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, *2009 Country Reports on Human Rights Practices*, March 11, 2010.

citizens' security in Brazil. Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. Violence has traditionally been linked to turf wars being waged between rival drug gangs for control of the drug industry or to clashes between drug gangs and police officials, who have been criticized for the brutal manner in which they have responded to the gang violence.

The weaknesses in Brazil's criminal justice system have become dramatically apparent in recent years as gangs have launched violent attacks that have destabilized the cities of São Paulo and Rio de Janeiro. In one such attack in May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (*Primeiro Comando da Capital*, PCC), paralyzed the city of São Paulo for several days.<sup>129</sup> Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths.<sup>130</sup> More recently, in October 2009, gunmen of the Red Command (*Comando Vermelho*, CV) launched a raid on the Morro dos Macacos favela to wrest control of the drug trade from the rival Friends of Friends (*Amigos dos Amigos*, ADA) gang. Over the course of several days, 31 people were killed, including three police sharpshooters whose helicopter was shot down as they tried to control the situation.<sup>131</sup>

As police forces in São Paulo and Rio de Janeiro have employed strong-arm tactics in hopes of curbing the rampant gang violence, some human rights groups have raised concerns over a rising number of 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>132</sup> Indeed, more than 11,000 people have been killed by the two police forces since 2003. Although the officers involved have reported nearly all of the killings as legitimate acts of self defense, or "resistance killings," a recent two year investigation by Human Rights Watch concluded that "a substantial portion of the alleged resistance killings reported...[were] in fact extrajudicial executions." The 2009 Human Rights Watch report also indicates 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 over the past decade, only 42 generated criminal charges by state prosecutors and just four led to convictions.<sup>133</sup> Despite these criticisms, some have defended the strong-arm tactics. São Paulo's public security secretariat maintains that Human Rights Watch failed to take note of the fact that annual state killings by police have declined by 50% since 2003 while the homicide rate has been reduced by 70% over the past decade.<sup>134</sup>

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<sup>129</sup> Formed in 1993 to protest the country's poor prison conditions, the PCC now has at least 6,000 dues-paying members and reportedly exerts control over more than 140,000 prisoners in the São Paulo prison system. Stephen Hanson, "Brazil's Powerful Prison Gang," *Council on Foreign Relations*, September 26, 2006.

<sup>130</sup> "Brazil: Battle of São Paulo Leaves a Disquieting Balance," *Latin American Weekly Report*, May 23, 2006; "Police are Criticized in Wave of Gang Violence in Brazil," *New York Times*, May 30, 2006; "Attacks in São Paulo Prompt Fears of Renewed Gang Offensive," *EFE News Service*, February 7, 2007.

<sup>131</sup> "Brazil: Rio police intervention in gang war leaves high toll," *Latin American Security & Strategic Review*, October 2009.

<sup>132</sup> "Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil," *States News Service*, November 15, 2007.

<sup>133</sup> "Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo," *Human Rights Watch*, December 2009.

<sup>134</sup> "Human Rights: Police violence under renewed scrutiny," *Latin American Regional Report: Brazil & Southern Cone*, January 2010.

Although many analysts assert 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, 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>135</sup> State level efforts have also increased. One particularly noteworthy example is the State of Rio de Janeiro's "Favela Pacification Program" that was established in late 2008. Under the initiative, elite police units enter favelas and clear them of drug gangs, allowing newly recruited Police Pacification Units (*Unidades de Polícia Pacificadora*, UPPs) to set up a permanent security presence and other governmental institutions to establish basic social services. This is a significant change from previous law enforcement efforts, which generally centered around quick raids followed by long periods of government neglect. UPPs are now present in 13 favelas and the Rio de Janeiro government intends to extend their presence to 100 favelas by 2014 when Brazil hosts the World Cup. The initiative has moved ahead so quickly that the Brazilian military has had to temporarily take on some law enforcement duties while additional civilian personnel are trained. Although some have expressed concerns about the military taking on civilian responsibilities, most observers have reacted positively to the increased security cooperation between state and federal governments.<sup>136</sup> Moreover, the new initiative appears to have been successful thus far; in 2010, Rio de Janeiro registered its lowest murder rate in 20 years.<sup>137</sup> President Rousseff has indicated that she would like to incorporate the UPPs into her national public security policy.<sup>138</sup>

### Race and Discrimination<sup>139</sup>

People of African descent in Brazil, also known as Afro-Brazilians, have long been disproportionately affected by the country's high level of inequality. However, little concrete information was available until the Brazilian government began to collect better official 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 legislation geared towards Afro-descendants 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. Several state universities in Brazil have also enacted quotas, setting aside admission slots for black students. In

<sup>135</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>136</sup> "Brazil: Forty Rio favelas targeted for 'pacification,'" *Latin American Security & Strategic Review*, January 2010; Fabiana Frayssinet, "Police Occupation Hurts Improved Relations with Favelas," *Inter Press Service*, December 1, 2010; Adam Isacson, "Rio de Janeiro's Pacification Program," *Washington Office on Latin America*, January 5, 2011; Fabiana Frayssinet & Mario Osava, "Brasil: La policía se gana corazones en Río de Janeiro," *Inter Press Service*, November 29, 2010; Stuart Grudgings, "Rio slums open for business as gangs ousted," *Reuters*, December 22, 2010.

<sup>137</sup> "Officials: Rio has lowest murder rate in 20 years," *Associated Press*, February 2, 2011.

<sup>138</sup> "Brazil: Rio on alert after new wave of violence," *Latin American Weekly Report*, November 25, 2010.

<sup>139</sup> For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke and June S. Beittel.

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 July 2010, President Lula signed 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. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that some of the legislation was weakened before passing and many of the initiatives lack the funding, staff, and clout necessary to be effective.<sup>140</sup> Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.<sup>141</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 seeks to promote equality of opportunity for the members of all racial and ethnic communities of the United States and Brazil. The six projects provided with initial funding under the Joint Action Plan seek to promote equal labor rights, strengthen linkages between U.S. and Brazilian universities, and improve educational and career opportunities for people of African descent.<sup>142</sup>

### Trafficking in Persons for Forced Labor<sup>143</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>144</sup> Brazil is a source, transit, and destination country for people, especially women and children, trafficked for commercial sexual exploitation. Brazilian Federal Police estimate that between 250,000 and 400,000 children are exploited in domestic prostitution, especially in the country's coastal resort areas where child sex tourism is prevalent.

<sup>140</sup> Dayanne Mikevis and Matthew Flynn, "Brazil's Civil Rights Activists Achieving Overdue Policy Reform," *Citizen Action in the Americas*, No. 17, April 2005; Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010; Arthur Brice, "Brazil enacts racial discrimination law, but some say it's not needed," *CNN*, July 21, 2010.

<sup>141</sup> Livio Sansone, "Anti-Racism in Brazil," *NACLA Report on the Americas*, September 1, 2004.

<sup>142</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "Linking Voices Through the U.S.-Brazil Joint Action Plan," March 10, 2009.

<sup>143</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

<sup>144</sup> Since 2001, the U.S. State Department has evaluated foreign governments' efforts to combat trafficking in persons in its annual Trafficking in Persons (TIP) reports, which are issued each June. Countries are grouped into four categories according to the U.S. assessment of efforts they are making to combat trafficking. Tier 1 is made up of countries deemed by the State Department to have a serious trafficking problem but fully complying with the minimum standards for the elimination of trafficking. Those standards are defined in the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) as amended. Tier 2 is composed of governments not fully complying with those standards but which are seen as making significant efforts to comply. Tier 2 Watch List, first added as a category in the 2004 report, is made up of countries that are on the border between Tier 2 and Tier 3. Tier 3 includes those countries whose governments the State Department deems as not fully complying with TVPA's anti-TIP standards and not making significant efforts to do so. Tier 3 countries have been made subject to U.S. sanctions since 2003.

Brazil is also a source country for men trafficked internally for forced labor. More than 25,000 men have reportedly been recruited to labor in slave-like conditions, many in the country's agribusiness industry. Roughly half of the more than 11,000 people freed from debt slavery in 2007 and 2008 were found working on sugarcane plantations.<sup>145</sup> While the Brazilian government announced an agreement with the sugar industry to provide decent working conditions for the country's sugarcane cutters in June 2009, the accord does not establish minimum wages or formal obligations.<sup>146</sup> Reports suggest that significant numbers of men working in cattle ranching, mining, and the production of charcoal for pig iron—a key ingredient of steel that is then purchased by major companies in the United States—are also subjected to slave labor.<sup>147</sup>

Over the past year, the Brazilian government has taken a number of actions to address the problem of human trafficking. Anti-slave labor mobile units under the Ministry of Labor increased their operations, inspecting remote areas, freeing 3,769 victims, and forcing those responsible to pay fines and restitution. Those responsible for slave labor paid some \$3.3 million in fines as a result of the 2009 operations. The Brazilian government also continued prosecuting traffickers, providing assistance to victims, and broadcasting its anti-trafficking public awareness campaign. Additionally, the Brazilian government continued implementing a national plan of action to prevent trafficking in persons. Despite these actions, Brazil has made only limited progress in bringing traffickers to justice and effectively penalizing those who exploit forced labor.<sup>148</sup>

## 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 two billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.<sup>149</sup>

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

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<sup>145</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report*, June 4, 2008 & June 16, 2009.

<sup>146</sup> "Brazil seeks decent working conditions for sugarcane cutters," *EFE News Service*, June 26, 2009.

<sup>147</sup> Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006; U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2010*, June 14, 2010.

<sup>148</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2010*, June 14, 2010.

<sup>149</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.



have led to approximately 15% of the Brazilian Amazon being deforested.<sup>150</sup> In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.<sup>151</sup> Between 1990 and 2000, Brazil lost approximately 70,000 square miles of forest; however, deforestation rates have generally declined since the peak year of 2004.<sup>152</sup>

## Domestic Efforts

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions, the Brazilian government has expanded protected areas and implemented new environmental policies.<sup>153</sup> The Lula Administration created over 60 new natural reserves, bringing the total area of the Brazilian Amazon protected by law to nearly 110,000 square miles, the fourth-largest percentage of protected area in relation to territory in the world.<sup>154</sup> President Lula also signed a Public Forest Management Law to encourage sustainable development and placed a moratorium on soybean plantings and cattle ranching in the Amazon. The Brazilian government intends 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. Brazil plans to meet these goals by increasing federal patrols of forested areas, replanting over 21,000 square miles of forest, and financing sustainable development projects in areas where the local economy depends on logging.<sup>155</sup> Between August 2009 and July 2010, some 2,490 square miles of the Amazon were deforested, a 14% drop from the year before and the lowest annual level since Brazil's National Institute for Space Studies began monitoring deforestation in 1988.<sup>156</sup>

Although some conservation groups praised the Lula Administration's actions, a number of environmentalists—including former Environment Ministers Marina Silva and Carlos Minc—questioned the Administration's commitment to sustainable development.<sup>157</sup> Critics assert that the Lula Administration favored agricultural interests over conservation. This claim was reinforced by President Lula's June 2009 approval of an environmental law that granted nearly 260,000

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<sup>150</sup> Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

<sup>151</sup> Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate existing lands. After agriculture, pasture grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning alter the ecosystem to the point that forests cannot regenerate.

<sup>152</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>153</sup> "Brazil: The Land Cries for Amazonia," *Latin America Data Base NotiSur*, February 13, 2009.

<sup>154</sup> "Brazil: Government policy for Amazon still ambiguous," *Latin News Weekly Report*, May 22, 2008.

<sup>155</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008; "Brazil: Climate credentials to the fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

<sup>156</sup> "Brazil: Deforestation reaches 22-year low," *Oxford Analytica*, December 2, 2010.

<sup>157</sup> Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; Ana Paula Paiva, "Brazil environment minister says lacks support," *Reuters*, May 28, 2009.

square miles of the Amazon to illegal squatters, 72% of which was directed to large land holders.<sup>158</sup> Critics also maintain that Brazil's occasional declines in deforestation rates are not the result of the government's initiatives, but correspond to declining global commodity prices that make it less profitable to clear the forests. They point out that deforestation rates only began falling as commodity prices collapsed in late 2008 as a result of the global financial crisis.<sup>159</sup> In order to combat further deforestation, some analysts maintain that the Brazilian government will have to greatly increase the number of people employed to work in protected areas and do more to confront agricultural producers operating within the Amazon.<sup>160</sup>

## International Initiatives

In August 2008, Brazil launched the "Amazon Fund" to attract donations from countries, companies, and non-governmental organizations to assist in Brazil's Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021 to support forest conservation, scientific research, and sustainable development. Norway has pledged \$1 billion to the fund through 2015 and Germany has pledged \$26.8 million. The first projects funded by the Amazon Fund were announced in December 2009. They include projects to regenerate degraded land, monitor land registration titles, and pay rubber tappers and other forest dwellers to protect the forest.<sup>161</sup>

U.S. environment programs in Brazil 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, the U.S. Agency for International Development (USAID) initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon's globally important biodiversity. USAID provided \$9.5 million for environmental programs in Brazil in FY2008, \$10 million in FY2009, and an estimated \$14 million in FY2010. The Obama Administration's FY2011 request included \$7 million for environmental programs in Brazil.<sup>162</sup> 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), which will reduce Brazil's debt payments by \$21 million over the next 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 the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.<sup>163</sup>

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<sup>158</sup> Jose Pedro Martins, "Brazil: Environmentalists and Church Protest Legalization of Fraudulently Obtained Lands in the Amazon," *Latin America Data Base NotiSur*, June 25, 2009.

<sup>159</sup> Raymond Colitt, "Brazil on target in slowing Amazon deforestation," *Reuters*, June 2, 2009.

<sup>160</sup> Ibid; Joshua Partlow, "A Protected Forest's Fast Decline," *Washington Post*, February 6, 2009.

<sup>161</sup> "Brazil unveils first foreign-funded Amazon projects," *Reuters*, December 4, 2009.

<sup>162</sup> U.S. State Department, *FY2011 Congressional Budget Justification for Foreign Operations*, February 1, 2010.

<sup>163</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. Sheikh.

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