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Brazil: Background and U.S. Relations

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Summary

The United States traditionally has enjoyed robust economic and political relations with Brazil, which is the seventh-largest economy in the world and is recognized by the Obama Administration as a “major global player” and an “indispensable partner” on issues ranging from international development to climate change. Administration officials have often highlighted Brazil’s status as a multicultural democracy, referring to the country as a natural partner that shares values and goals with the United States. Bilateral ties have been strained from time to time as the countries’ occasionally divergent national interests and independent foreign policies have led to disagreements. U.S.-Brazilian relations were particularly strained following revelations in 2013 of alleged National Security Agency (NSA) activities inside Brazil. Cooperation has improved over the past year, however, culminating in a June 2015 presidential meeting at the White House. Ongoing areas of engagement include trade, energy, security, racial equality, and the environment.

Brazil’s Political and Economic Situation

After narrowly winning a second round runoff election in October 2014, President Dilma Rousseff of the center-left Workers Party was inaugurated to a second four-year term on January 1, 2015. Economic conditions in Brazil have deteriorated significantly in recent years, and Rousseff is now in the difficult position of trying to keep her campaign promises to protect social welfare programs and maintain low unemployment while simultaneously implementing austerity measures that many economists think are necessary to attract investment and ultimately boost growth. While international investors have welcomed Rousseff’s efforts to carry out an economic adjustment, much of her political base is opposed to the policy shift. Unemployment has begun to increase, and the economy is expected to contract by 1.5% this year.

The poor economic situation has weakened Rousseff’s political standing, which was already fragile as a result of a major corruption scandal that has implicated numerous officials in the governing coalition. In August 2015, 8% of Brazilians approved of Rousseff’s job performance while 71% disapproved. Nominally allied legislators are increasingly voting against key portions of Rousseff’s policy agenda, and some political leaders are discussing the possibility of her impeachment.

Congressional Action

The 114th Congress has taken up several legislative measures that will influence U.S.-Brazil relations. As part of the Trade Preferences Extension Act of 2015 (P.L. 114-27), Congress renewed the Generalized System of Preferences (GSP) program, which provides non-reciprocal, duty-free tariff treatment to certain products imported from Brazil and other designated developing countries. Congress is also considering reforms to the International Monetary Fund (IMF) that would provide greater voting power to Brazil and other emerging economies. While the State Department and foreign operations appropriations bill reported in the Senate, S. 1725, would authorize the IMF reforms, which have been awaiting congressional approval for nearly five years, the version reported in the House, H.R. 2772, would not. Additionally, Congress may appropriate funding to continue U.S. assistance programs in Brazil and U.S.-Brazil development cooperation in other countries. The reports accompanying the State Department and foreign operations appropriations bills, S.Rept. 114-79 and H.Rept. 114-154, both recommend providing \$10.5 million to support conservation programs in the Brazilian Amazon.

Contents

Recent Developments	1
Political and Economic Situation	2
Background	3
Cardoso Administration (1995-2002)	4
Lula Administration (2003-2010)	5
Rousseff Administration (2011-Present)	6
Economic Challenges.....	7
Political Challenges	8
U.S.-Brazil Relations.....	9
U.S. Foreign Assistance and Trilateral Development Initiatives.....	10
Commercial Relations.....	11
Bilateral Trade and Investment	13
Cotton Dispute	14
Energy Ties.....	15
Biofuels.....	16
Oil	17
Security Cooperation.....	19
Counternarcotics	19
Counterterrorism.....	20
Defense	21
Promotion of Racial Equality.....	22
Amazon Conservation.....	23

Figures

Figure 1. Map of Brazil	2
Figure 2. U.S. Trade with Brazil: 2004-2014	14
Figure 3. U.S. Oil Trade with Brazil: 2004-2014	19
Figure 4. Deforestation in the Brazilian Amazon: 2004-2014.....	25

Tables

Table 1. U.S. Assistance to Brazil: FY2012-FY2016.....	11
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Contacts

Author Contact Information	26
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Recent Developments

- On August 6, 2015, the Brazilian polling organization *Datafolha* published a poll that found 8% of Brazilians approve of President Dilma Rousseff's performance in office while 71% of disapprove. Two-thirds of those surveyed supported Congress opening impeachment proceedings against the president (see "Political Challenges").
- On July 9, 2015, the International Monetary Fund (IMF) published an updated *World Economic Outlook* that forecasts that the Brazilian economy will contract by 1.5% in 2015. In April 2015, the IMF had forecasted a 1% contraction (see "Economic Challenges").
- Also on July 9, 2015, the Senate Appropriations Committee reported the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016 (S. 1725) to the full Senate. Among other provisions, the bill authorizes reforms to the IMF that would provide greater voting power to Brazil and other emerging economies (see "U.S.-Brazil Relations"). The report accompanying the bill (S.Rept. 114-79) recommends providing \$10.5 million to support conservation programs in the Brazilian Amazon (see "Amazon Conservation").
- On June 30, 2015, President Rousseff met with President Obama at the White House. While the meeting produced few major policy announcements, it demonstrated both countries' willingness to move beyond a difficult period in bilateral relations in the aftermath of disclosures about National Security Agency (NSA) activities in Brazil (see "U.S.-Brazil Relations").
- On June 29, 2015, President Obama signed into law the Trade Preferences Extension Act of 2015 (P.L. 114-27), which extended the Generalized System of Preferences (GSP) program through 2017. GSP provides nonreciprocal, duty-free tariff treatment to certain products imported from Brazil and other designated developing countries. Authorization for the program had previously expired on July 31, 2013 (see "Bilateral Trade and Investment").
- On June 25, 2015, the Brazilian Congress approved two bilateral defense cooperation agreements with the United States that had been pending since 2010 (see "Defense").
- On June 15, 2015, the House Appropriations Committee reported its version of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016 (H.R. 2772) to the House of Representatives. The bill does not authorize reforms to the IMF that would provide greater voting power to Brazil and other emerging economies (see "U.S.-Brazil Relations"). The report accompanying the bill (H.Rept. 114-154) recommends providing \$10.5 million to support conservation programs in the Brazilian Amazon (see "Amazon Conservation").

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

Political and Economic Situation

President Dilma Rousseff of the center-left¹ Workers Party (*Partido dos Trabalhadores*, PT) first assumed office in January 2011. Her predecessors, Presidents Fernando Henrique Cardoso (1995-

¹ The PT was founded as a leftist party, but 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.

2002) and Luis Inácio Lula da Silva (2003-2010), made notable progress in consolidating democratic governance, stabilizing the economy, and reducing the country's vast social disparities. Brazil also benefitted from favorable international economic conditions in the decade prior to her election, which, combined with the policies of her predecessors, facilitated Brazil's rise to become the seventh-largest economy in the world.

Economic conditions began to deteriorate early in Rousseff's term, however, and her administration struggled throughout her first four years in office to address weak economic growth and popular discontent. Nevertheless, Rousseff was narrowly reelected. Now over seven months into her second term, Rousseff is implementing economic austerity measures designed to attract investment and boost long-term growth while attempting to protect social welfare programs. Rousseff's political standing has weakened significantly as the economy has continued to slow and revelations about a major corruption scandal have come to light. Her public approval rating has fallen to single digits, nominally allied legislators have voted against Rousseff on key portions of her policy agenda, and some political leaders have begun to discuss impeachment.

Brazil at a Glance

Land Area: 8.5 million sq. km. (slightly smaller than the United States)

Population: 202.8 million (2014 est.)

Race/Ethnicity: White—47.7%, Mixed Race—43.1%, Black—7.6%, Asian—1.1%, Indigenous—0.4% (Self-identification, 2010)

Religion: Catholic—65%, Evangelical Christian—22%, None—8%, Other—4% (2010)

Official Language: Portuguese

Gross Domestic Product (GDP): \$1.9 trillion (2015 est.)

GDP per Capita: \$9,312 (2015 est.)

Top Exports: iron ore, soybeans, oil, meat, and machinery (2014)

Life Expectancy at Birth: 74.2 years (2015)

Infant Mortality Rate: 12.3 per 1,000 live births (2013)

Adult Literacy Rate: 92.6% (2015)

Poverty Rate: 18% (2013)

Extreme Poverty Rate: 5.9% (2013)

Sources: Area, population, race/ethnicity, and religion statistics from the *Instituto Brasileiro de Geografia e Estatística* (IBGE); GDP estimates from the International Monetary Fund (IMF); trade data from *Global Trade Atlas*; life expectancy, infant mortality, literacy, and poverty rates from the U.N. Economic Commission for Latin America and the Caribbean (ECLAC).

Background

Brazil occupies almost half of the continent of South America and is the fifth most populous country in the world with 203 million citizens.² The country declared independence from Portugal in 1822, initially establishing a constitutional monarchy and retaining a slave-based, plantation economy. Brazil abolished slavery in 1888 and became a republic in 1889, but economic and political power remained concentrated in the hands of large rural landowners and the vast majority of Brazilians remained outside the political system. The authoritarian government of Getúlio Vargas (1930-1945) began the incorporation of the working classes but exerted strict control over labor as part of its broader push to centralize power. Vargas also increased the state's

² Instituto Brasileiro de Geografia e Estatística (IBGE), *Estimativas da População Residente no Brasil e Unidades da Federação com Data Referência em 1º de Julho de 2014*, August 28, 2014.

role in the economy and pursued import-substitution industrialization. Brazil enjoyed multiparty democracy between 1945 and 1964, but experienced polarization and instability as economic growth slowed, inflation increased, and populism gained strength.

The Brazilian military seized power in a 1964 coup, ushering in two decades of authoritarian rule (1964-1985). Although repressive, the Brazilian military was not as brutal as those in some other South American countries. It nominally allowed the judiciary and Congress to function during its tenure, but stifled representative democracy and civic action, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. According to Brazil's National Truth Commission, at least 434 people were killed or "disappeared" by the dictatorship.³ Brazil continued to pursue state-led development during most of the military era, and industrialization helped foster the transformation of Brazil into a predominantly urban society.

Brazil restored civilian rule in 1985, and a national constituent assembly, elected in 1986, promulgated a new constitution in 1988. The constitution, as amended, establishes a liberal democracy with a strong president, a bicameral Congress consisting of the 513-member Chamber of Deputies and the 81-member Senate, and an independent judiciary. Power is somewhat decentralized under the country's federal structure, which includes 26 states, a federal district, and some 5,570 municipalities.

Brazil experienced economic recession and political uncertainty during the first decade after the political transition. Numerous efforts to control runaway inflation failed, and two elected presidents did not complete their terms; one died before taking office, and the other was impeached on corruption charges.⁴

Cardoso Administration (1995-2002)

Brazil's economic and political situation began to stabilize under President Fernando Henrique Cardoso, who was elected to serve two terms between 1995 and 2002. A prominent sociologist of the centrist⁵ Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), Cardoso's initial election in 1994 was largely the result of the success of the anti-inflation "Real Plan" that he implemented as finance minister under President Itamar Franco (1992-1994). The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with annual inflation falling from 2,730% in 1993 to about 18% in 1995.⁶

Cardoso continued the economic reform push after taking office, privatizing some state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment. These policies contributed to stronger growth rates for a few years, but macroeconomic stability remained elusive. Following the 1997 East Asian and 1998 Russian financial crises, concerns

³ Comissão Nacional da Verdade, *Relatório*, Volume 1, December 2014, p. 963.

⁴ *Brazil: A Country Study*, ed. Rex A. Hudson, 5th ed. (Washington, DC: Library of Congress, 1998).

⁵ 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). It has moved to the right since implementing market-oriented economic reforms during the Cardoso Administration. Power and Zucco, 2009, op. cit.

⁶ CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

about Brazil's overvalued exchange rate and substantial fiscal deficits sparked a massive capital flight. Brazil adopted a floating exchange rate, and the *real* lost 40% of its value.⁷

Although Cardoso's popularity declined as Brazil struggled with these economic challenges, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has experienced since he left office. In the aftermath of the 1998-1999 financial crises, Brazil adopted the three main pillars of its macroeconomic policy: a floating exchange rate, a primary budget surplus,⁸ and an inflation-targeting monetary policy. Cardoso also established a series of targeted income transfer programs designed to alleviate poverty. These economic and social policies have been maintained and built upon by subsequent administrations.

Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was elected president of Brazil in 2002, his fourth attempt at the presidency as the candidate of the PT, which he helped found as a metalworker and union leader. During his first term, Lula maintained the market-oriented economic policies associated with his predecessor. He tightly controlled expenditures, raised the primary budget surplus, and granted additional autonomy to the Central Bank. At the same time, he placed greater emphasis on reducing poverty, reorganizing and expanding some of the social programs that had been initiated under Cardoso. The most high-profile program, *Bolsa Família* (“Family Grant”), provides monthly cash transfers to poor families that ensure their children attend school and receive proper medical care. Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in a vote-buying scheme. The scandal ultimately led to the convictions of 25 people—including Lula's former chief of staff—in 2012.⁹ Nevertheless, Lula was reelected in 2006.

After primarily focusing on maintaining economic stability during his first term, Lula established a larger role for the Brazilian state in economic development during his second term. He expanded *Bolsa Família* and launched new social welfare programs. He also continued to raise the minimum wage, which, adjusted for inflation, increased nearly 64% during his eight years in office.¹⁰ In response to the global financial crisis, the Lula Administration implemented a series of stimulus measures designed to offset declines in global demand with increased domestic consumption. Analysts have credited the administration's timely policy response for mitigating the effects of the crisis and facilitating recovery;¹¹ the Brazilian economy contracted by 0.2% in 2009 before rebounding with 7.6% growth in 2010.¹² Moreover, Lula won legislative approval for a new regulatory framework that increased the state's role in the exploitation of Brazil's considerable offshore oil reserves and is designed to ensure that those resources are used to fuel long-term economic and social development.

Although some observers criticized Lula for not doing more to advance certain policy reforms,¹³ most give him credit for improving social inclusion in Brazil. Between 2001 and 2011, the

⁷ Ibid; Riordan Roett, “How Reform has Powered Brazil's Rise,” *Current History*, February 2010.

⁸ The primary balance is equal to government revenues minus expenditures prior to subtracting debt payments.

⁹ “Brazil Politics: Supreme Court Gives Tough Sentences in ‘Mensalão’ Trial,” *Economist Intelligence Unit*, October 26, 2012.

¹⁰ Cristiano Romero, “O Legado de Lula na Economia,” *Valor Online* (Brazil), December 29, 2010.

¹¹ See, for example, International Monetary Fund (IMF), “IMF Executive Board Concludes 2010 Article IV Consultation with Brazil,” August 5, 2010.

¹² IMF, *World Economic Outlook Database, April 2015*, April 14, 2015.

¹³ See, for example, “Brazil's Presidential Election: Lula's Legacy,” *Economist*, September 30, 2010; and Paulo Kliass, (continued...)

percentage of the population living in poverty fell from 37.5% to 20.9%, and the percentage living in extreme poverty fell from 13.2% to 6.1%.¹⁴ Income inequality was also reduced, with the Gini coefficient¹⁵ falling from 0.64 to 0.56 during the same time period.¹⁶ While these advances were partially the result of stronger economic growth driven by a boom in international demand for Brazilian commodities, government policy also played a role. According to a 2012 study, about 28% of the decline in income inequality in Brazil between 2001 and 2009 was attributable to increases in the minimum wage, and another 13% of the decline was attributable to the *Bolsa Familia* program.¹⁷

Rousseff Administration (2011-Present)

President Dilma Rousseff of the center-left PT was inaugurated to a second four-year term on January 1, 2015. Although she was originally elected in 2010 after promising to maintain the popular socioeconomic policies of President Lula, Rousseff struggled to address the country's deteriorating economic situation during her first term. She also had to contend with popular unrest, including mass demonstrations in June 2013, during which more than 1 million citizens took to the streets to express frustration with the stagnation in their living standards, call for better quality public services, and denounce corruption.¹⁸ While the political opposition sought to capitalize on Rousseff's failure to meet citizens' rising expectations during the 2014 election campaign, Rousseff and the PT appear to have convinced many Brazilians that the opposition candidates would end popular social welfare programs and threaten the considerable socioeconomic gains made in Brazil since 2003. She held off two strong challengers and was narrowly reelected with 51.6% of the vote in a second round runoff.¹⁹

Now over seven months into her second term, Rousseff continues to face significant economic and political challenges. On the economic front, Rousseff is attempting to keep her campaign promises to protect social welfare programs and maintain low unemployment while implementing austerity measures that many economists assert are necessary to encourage investment and ultimately boost growth (see "Economic Challenges"). Rousseff's political standing has declined precipitously as economic conditions have continued to deteriorate and a major corruption scandal has implicated numerous officials in the governing coalition. In August 2015, 8% of Brazilians approved of her job performance while 71% disapproved (see "Political Challenges").²⁰

(...continued)

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

¹⁴ U.N. Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 2013*, December 2013, p. 65.

¹⁵ The Gini coefficient is a value between zero and one, where zero represents complete equality and one represents complete inequality.

¹⁶ ECLAC, December 2013, op. cit., p. 70.

¹⁷ Pedro H. G. Ferreira de Souza, *Poverty, Inequality and Social Policies in Brazil, 1995-2009*, U.N. Development Programme, International Policy Centre for Inclusive Growth, Working Paper Number 87, Brasilia, February 2012, p. 19, <http://www.ipc-undp.org/pub/IPCWorkingPaper87.pdf>.

¹⁸ "Brazil's Stormy June: Not Turkey or Egypt," *Latin American Security & Strategic Review*, June 2013.

¹⁹ Tribunal Superior Eleitoral, "Estatísticas Eleitorais 2014," October 26, 2014.

²⁰ Alexandre Aragão, "Reprovação de Dilma Cresce e Supera a de Collor em 1992," *Folha de São Paulo*, August 6, 2015.

Economic Challenges

President Rousseff will likely spend much of her second term focusing on domestic economic challenges. With a gross domestic product (GDP) of \$1.9 trillion,²¹ Brazil is the largest economy in Latin America and the seventh-largest economy in the world. Annual economic growth averaged over 4% between 2003 and 2010, driven by a boom in international demand—particularly from China—for Brazilian commodities such as meat, sugar, soybeans, iron ore, and crude oil. The initial expansion was reinforced by domestic consumption from Brazil’s fast-growing middle class, which now accounts for a majority of the population.²² As commodity prices began to fall, however, Brazil’s economic growth slowed.

During her first term, Rousseff sought to offset the weaker international economic situation by stimulating domestic consumption and protecting domestic industry. Her administration implemented a series of short-term tax cuts and provided subsidized credit through state banks. Although those measures initially helped keep unemployment near historic lows, they also eroded the country’s primary budget surplus and helped push inflation to the upper edge of the government’s targeted boundary (4.5% with a 2-point tolerance band). To mitigate the increase in inflation, the Rousseff Administration held down fuel and electricity prices, which, in turn, deterred investment in the energy sector. Economic growth continued to slow, falling from 3.9% in 2011 to 0.1% in 2014.²³

Facing further economic deceleration and the threat of Brazil losing its investment grade credit rating, President Rousseff has begun to implement a major shift in economic policy. Following her reelection, she appointed a new economic team to implement a series of austerity measures designed to stabilize the country’s debt levels, encourage investment, and ultimately boost growth. The fiscal adjustment has included a partial budget freeze, restrictions on certain pension and unemployment benefits, and reversals of several of the tax cuts granted during her first term. The Rousseff Administration has also allowed fuel and electricity prices to rise—although the domestic price of gasoline remains below the price on the international market.²⁴ At the same time, the Brazilian Central Bank has continued to raise the benchmark interest rate, and has announced its intention to bring inflation back down to 4.5% by the end of 2016.²⁵

Many economists and international investors have advocated for quicker and more far-reaching economic adjustments. The International Monetary Fund (IMF), for example, maintains that Brazil needs to address structural impediments, such as infrastructure bottlenecks, a relatively closed economy, and a complex and burdensome tax system, in order to boost its growth potential.²⁶ While Rousseff has announced a \$57 billion (198.4 billion reais) infrastructure plan, which includes selling concessions to the private sector to upgrade, build, and operate highways, railways, ports, and airports, she lacks domestic support for other changes.²⁷ Rousseff did little to prepare her political base for an economic adjustment, having campaigned against austerity measures during the 2014 election. The Brazilian Congress, nominally controlled by Rousseff’s

²¹ IMF, *World Economic Outlook Database, April 2015*, April 14, 2015.

²² Neri, June 2011, *op. cit.*, p. 35.

²³ IMF, *World Economic Outlook Database, April 2015*, April 14, 2015.

²⁴ Jeb Blount and Marta Nogueira, “Exclusive: Petrobras Drags Heels on Brazil Fuel-Price Policy – Sources,” Reuters, August 3, 2015.

²⁵ Mario Sergio Lima and Raymond Colitt, “Brazil’s Goal is 4.5% Inflation in December 2016, Tombini Says,” *Bloomberg*, December 17, 2014.

²⁶ IMF, *Brazil: 2014 Article IV Consultation—Staff Report*, IMF Country Report No. 15/121, May 2015.

²⁷ Alonso Soto and Luciana Otoni, “Brazil Raises Rate of Return on Roads, Other Projects,” Reuters, July 10, 2015.

coalition, has repeatedly sought to delay or reverse the Administration's fiscal adjustments. As a result of these delays and weaker than forecasted revenue collection, the Brazilian government has had to lower its 2015 primary surplus target from 1.1% of GDP to 0.15% of GDP.²⁸

While Brazil has held onto its investment grade credit rating thus far, economic conditions have continued to deteriorate. Unemployment reached 8.1% in March-May 2015, up from 7% during the same period of 2014.²⁹ Median wages have yet to fall, but the cost of living has increased as a result of persistently high inflation. The IMF has revised down its forecast for the Brazilian economy and now expects it to contract by 1.5% in 2015 before returning to growth with a 0.7% expansion in 2016.³⁰

Political Challenges

The fallout from a major corruption scandal has taken a toll on Rousseff's political standing. According to Brazilian prosecutors, beginning in 2004, several construction and engineering firms colluded to systematically drive up the price of bids for contracts with the state-owned oil company, *Petróleo Brasileiro S.A.* (Petrobras). At least \$3 billion from the inflated contracts was allegedly funneled to corrupt executives at the construction firms and Petrobras and to 50 politicians from six political parties. As of August 2015, Brazilian authorities had indicted 117 individuals, brought criminal charges against 13 companies, and arrested five politicians—including top officials in Rousseff's PT.³¹ Rousseff served as the chairwoman of Petrobras from 2003-2010, but prosecutors have yet to find evidence that she was aware of the corruption scheme. Anti-corruption legislation enacted during Rousseff's first term has been used to facilitate the investigation, and Rousseff recently reappointed the top prosecutor involved in the case. Nevertheless, many Brazilians hold her accountable for the scandal.³²

As more information about the corruption scandal has come to light and economic conditions have continued to deteriorate, Rousseff's popularity has declined significantly. Between February and August 2015, her approval rating fell from 23% to 8% and her disapproval rating increased from 44% to 71%. Rousseff's August 2015 disapproval rating was the highest recorded for a Brazilian president since the reestablishment of democracy, exceeding that of President Fernando Collor (1990-1992) just prior to his impeachment.³³

Rousseff has also lost political support in the Brazilian Congress. While her nine-party electoral coalition won 304 (59%) of the 513 seats in the Chamber of Deputies and 53 (65%) of the 81 seats in the Federal Senate in the 2014 elections, Rousseff has struggled to advance her policy agenda. Brazilian presidents have traditionally constructed governing majorities by distributing control of government resources to allied political parties through legislative earmarks and positions in ministries and state enterprises. Rousseff has fewer resources to distribute, however, as a result of her administration's austerity policies. Her lack of popular support has further reduced her leverage to negotiate with the parties in her coalition. Consequently, Rousseff has lost

²⁸ Alonso Soto, "Brazil Slashes Fiscal Surplus Goal as Downturn Hits Revenues," Reuters, July 22, 2015.

²⁹ IBGE, "Continuous PNAD: Unemployment Reaches 8.1% in the Quarter Ended May 2015," July 9, 2015.

³⁰ IMF, *World Economic Outlook Update: Slower Growth in Emerging Markets, a Gradual Pickup in Advanced Economies*, July 9, 2015.

³¹ David Segal, "Petrobras Oil Scandal Leaves Brazilians Lamenting a Lost Dream," *New York Times*, August 7, 2015.

³² Joe Leahy, "Brazil Corruption Clampdown May Yet Prove to be Rousseff's Legacy," *Financial Times*, August 6, 2015; "Brazil's Rousseff Reappoints Top Prosecutor in Petrobras Probe," Reuters, August 8, 2015.

³³ Alexandre Aragão, "Reprovação de Dilma Cresce e Supera a de Collor em 1992," *Folha de São Paulo*, August 6, 2015.

several important congressional votes, and some allied legislators have begun to distance themselves from the President. Chamber of Deputies President Eduardo Cunha, a member of the nominally allied and ideologically heterogeneous Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB), has formally broken with the governing coalition, as has the center-left Democratic Labor Party (*Partido Democrático Trabalhista*, PDT), which holds 19 seats in the Chamber and 7 seats in the Senate. Rousseff has even struggled to maintain the support of some PT legislators, many of whom oppose her shift in economic policy.

A number of political leaders have begun to discuss the possibility of impeaching President Rousseff. While some have sought to tie her to the Petrobras corruption scandal, others suggest she could be impeached as a result of a separate probe into the government's accounting practices. In August 2015, 66% of Brazilians surveyed said the Brazilian Congress should begin impeachment proceedings against President Rousseff.³⁴ Chamber of Deputies President Eduardo Cunha reportedly has been consulting with opposition legislators about how to move forward with an impeachment trial, although some observers maintain Cunha is attempting to deflect scrutiny over his own alleged involvement in the Petrobras corruption scandal. Senate President Renan Calheiros, also of the PMDB, has voiced opposition to impeachment, making it unlikely that Rousseff will be forced out of office unless prosecutors find evidence directly implicating her in the corruption scandal.³⁵

U.S.-Brazil Relations

The United States and Brazil have traditionally enjoyed robust political and economic relations. The countries have at least 20 active bilateral dialogues, which serve as vehicles for policy coordination on issues of mutual concern, including trade, energy, security, racial equality, and the environment.³⁶ The United States and Brazil have also begun to engage more frequently on international issues given Brazil's expanded global reach as the seventh-largest economy in the world. The Obama Administration now considers Brazil a "major global player" and an "indispensable partner" on issues ranging from international development to climate change.³⁷

Nevertheless, bilateral ties have been strained from time to time as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements. In 2014, for example, Brazil opposed international efforts to diplomatically isolate Russia after it annexed Crimea and largely refrained from openly criticizing the Venezuelan government's harsh response to political protests. While Brazil did not support the actions of the Russian and Venezuelan governments, its aversion to sanctions and preference for dialogue led it to approach the issues much differently than the United States.³⁸ Similarly, Brazilian officials have expressed dismay that the U.S. Congress has not yet approved reforms to the IMF that would provide greater voting

³⁴ Ibid.

³⁵ Isadora Perone Ricardo Brito, "Em Jantar, Senadores Tucanos e do PMDB Ensaíam Aproximação," *Estado de São Paulo*, August 5, 2015; "Impeaching Rousseff Would Set Brazil on Fire: Senate Chief," Reuters, August 11, 2015; Simon Romero, "Scandals in Brazil Prompt Fears of a Return to Turmoil," *New York Times*, August 12, 2015.

³⁶ U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S. Relations with Brazil," fact sheet, July 29, 2015.

³⁷ White House, Office of the Press Secretary, "Remarks by President Obama and President Rousseff of Brazil in Joint Press Conference," June 30, 2015.

³⁸ Oliver Stuenkel, *Why Brazil Has Not Criticized Russia over Crimea*, Norwegian Peacebuilding Resource Centre, Policy Brief, May 2014; "Brazil Defends Quiet Diplomacy Towards Venezuela," *Latin News Daily Report*, April 4, 2014.

power to Brazil and other emerging economies.³⁹ The IMF reforms, which have been pending for nearly five years, are currently being considered in Congress; the foreign operations appropriations bill reported in the Senate, S. 1725, would authorize the reforms, but bill reported in the House, H.R. 2772, would not.

Disclosures about NSA activities in Brazil have impeded bilateral cooperation since 2013. The reports, which indicated that the NSA had spied on President Rousseff and Brazil's state-owned oil company, Petrobras, in addition to engaging in broader electronic surveillance, led Brazil to indefinitely postpone a state visit to Washington that Rousseff was scheduled to make in October 2013. They also appear to have contributed to the Brazilian government's decisions to terminate a \$2 billion contract with Microsoft, award a \$400 million contract to build a geostationary satellite to France's Thales over U.S.-based Space Systems/Loral, and award a \$4.5 billion fighter jet procurement deal to Sweden's Saab AB over Boeing.⁴⁰ At the September 2013 U.N. General Assembly, Rousseff denounced alleged NSA activities as a breach of international law and a threat to democratic governance, stating, "In the absence of the right to privacy, there can be no true freedom of expression and opinion, and therefore no effective democracy." She also asserted that "friendly governments and societies that seek to build a true strategic partnership ... cannot allow recurring illegal actions to take place as if they were normal. They are unacceptable."⁴¹

The United States and Brazil have sought to gradually move past the surveillance dispute over the past year. In October 2014, the U.S. and Brazilian governments signed a memorandum of understanding designed to resolve a long-running trade dispute over U.S. cotton support programs (see "Cotton Dispute"). Rousseff appointed her former ambassador to the United States as foreign minister following her reelection and asserted that "it is of great importance that we improve our relationship with the United States" during her January 2015 inaugural address, which was attended by Vice President Biden.⁴² She also rescheduled her visit to the United States that had previously been postponed, meeting with President Obama at the White House in June 2015. In the lead up to Rousseff's visit, the Brazilian Congress approved two pending defense cooperation agreements (see "Defense") and a tax information exchange agreement that meets the requirements of the Foreign Account Tax Compliance Act (FATCA, P.L. 111-147).

U.S. Foreign Assistance and Trilateral Development Initiatives

As a middle-income country, Brazil does not receive large amounts of U.S. assistance. The United States provided Brazil with \$18 million in FY2012, \$15.2 million in FY2013, and \$13.9 million in FY2014 (see **Table 1**). The Obama Administration requested \$3.4 million in assistance for Brazil in FY2015, but country allocations for this fiscal year are not yet available.

³⁹ Ian Talley, "U.S. Inaction Sows Dissent in Monetary Fund—Representatives of Emerging Economies at the IMF Say They Have Waited Too Long for the Congress to Act," *Wall Street Journal*, April 15, 2014. For more information on the potential reforms, see CRS Report R42844, *IMF Reforms: Issues for Congress*, by Rebecca M. Nelson and Martin A. Weiss.

⁴⁰ Brazilian Congress, Federal Senate Committee on Foreign Relations and National Defense, *Directions for Brazil-United States Relations*, testimony of Paulo Sotero, Director of the Brazil Institute of the Woodrow Wilson International Center for Scholars, April 3, 2014; Anthony Boadle and Brian Winter, "Exclusive – Russia, U.S. Competing for Space Partnership with Brazil," Reuters, June 15, 2015.

⁴¹ President Dilma Rousseff, *Statement by H.E. Dilma Rousseff, President of the Federative Republic of Brazil, at the Opening of the General Debate of the 68th Session of the United Nations General Assembly*, September 24, 2013.

⁴² President Dilma Rousseff, *Discurso da República, Dilma Rousseff, durante Compromisso Constitucional Perante o Congresso Nacional*, January 1, 2015.

The Obama Administration has requested \$1.4 million in assistance for Brazil in FY2016. \$500,000 would be used to support Brazil's national HIV/AIDS strategy and the goals of the President's Emergency Plan for AIDS Relief (PEPFAR).⁴³ Another \$625,000 would be used to provide professional training to members of Brazil's military. The remaining \$240,000 would be used to enhance Brazil's strategic trade control compliance and enforcement of maritime and port security. Although the Administration did not request any funding for conservation programs in the Brazilian Amazon, the House and Senate Appropriations Committees both recommend providing \$10.5 million for such programs in the reports (H.Rept. 114-154 and S.Rept. 114-79) accompanying their respective FY2016 Department of State, Foreign Operations, and Related Programs appropriations bills (H.R. 2772 and S. 1725).

In addition to supporting aid programs in Brazil, the U.S. Agency for International Development (USAID) has begun working with Brazil's development agency, the Brazilian Cooperation Agency (*Agência Brasileira de Cooperação*, ABC), in third countries. Under these so-called trilateral development initiatives, the United States and Brazil share expertise and funding in order to accomplish common goals. In Haiti, Honduras, and Mozambique, for example, USAID and the ABC have collaborated on agricultural productivity and food security programs designed to reduce poverty, hunger, and malnutrition. The Administration's FY2016 foreign aid request includes some funding to collaborate with Brazil on renewable energy and citizen security programs in Central America.⁴⁴

Table I. U.S. Assistance to Brazil: FY2012-FY2016

In thousands of U.S. dollars

Account	FY2012	FY2013	FY2014	FY2015 (req.)	FY2016 (req.)
Development Assistance	12,800	11,462	12,500	2,000	0
Global Health Programs (State)	1,300	881	500	500	500
International Narcotics Control and Law Enforcement	3,000	2,000	0	0	0
Nonproliferation Anti-terrorism, Demining, and Related programs	300	270	240	240	240
International Military Education and Training	638	572	618	625	625
Total	18,038	15,185	13,858	3,365	1,365

Sources: U.S. Department of State, *Congressional Budget Justifications for Foreign Operations, Fiscal Years 2014, 2015, and 2016*.

Notes: FY2015 country allocations are not yet available.

Commercial Relations

Trade policy has often been a contentious issue in U.S.-Brazilian relations. Over the past two decades, Brazil's trade policy has prioritized regional integration through the Common Market of

⁴³ For more information on PEPFAR, see CRS Report IF10184, *The President's Emergency Plan for AIDS Relief (PEPFAR): Summary of Recent Developments*, by Tiaji Salaam-Blyther.

⁴⁴ U.S. Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2016*, February 27, 2015, <http://www.state.gov/documents/organization/238222.pdf>.

the South (Mercosur)⁴⁵ and multilateral negotiations at the World Trade Organization (WTO).⁴⁶ Brazil is the industrial hub of Mercosur, which was established in 1991 and also includes Argentina, Paraguay, Uruguay, and Venezuela. While the bloc was created with the intention of incrementally advancing toward full economic integration, only a limited customs union has been achieved thus far. The group has also been plagued by internal disputes and frequent rule changes. Instead of serving as a platform for insertion into the global economy as originally envisioned, Mercosur has evolved into a more protectionist arrangement, shielding its members from external competition. Beginning in the 1990s, the United States sought to incorporate Mercosur and other sub-regional trade blocs into a hemisphere-wide Free Trade Area of the Americas (FTAA).⁴⁷ The initiative was effectively killed in 2005, however, when the United States was unable to persuade Brazil and the other members of Mercosur to continue the negotiations.

At the WTO, Brazil has played a key role in the Doha Round of multilateral trade negotiations that began in 2001.⁴⁸ It has led the G-20 group of developing nations in insisting that developed countries reduce agricultural tariffs and subsidies. Brazil has also resisted calls by the United States and other developed countries for increased access to developing nations' industrial and services sectors. In 2013, Brazil's widely respected diplomat and trade representative Roberto Azevêdo was appointed Director General of the WTO. He has sought to revive the Doha Round, successfully negotiating a small-scale agreement on trade facilitation measures in December 2013. Negotiations on more sensitive issues like agriculture reportedly remain stalled.⁴⁹

Some Brazilian analysts have argued that the international trading system is undergoing a significant transformation and that Brazil should reconsider its trade policy.⁵⁰ They maintain that large-scale agreements like the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)⁵¹ could establish new and more comprehensive rules for trade and investment. By setting new global standards, the agreements could effectively bypass the current round of WTO negotiations and threaten Brazil's ability to shape the international trading system. The agreements could also place Brazilian companies at a competitive disadvantage and threaten the global market share of Brazilian exports. In order to remain relevant and take advantage of changing opportunities, these analysts argue that Brazil should conclude trade negotiations with the European Union (EU) and consider pursuing a trade agreement with the United States.

⁴⁵ For background information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

⁴⁶ João Augusto de Castro Neves, *Brazil's Slow and Uncertain Shift from Protectionism to Free Trade*, Inter-American Dialogue, Working Paper, January 2014, http://www.thedialogue.org/uploads/CastroNeves_Trade.pdf.

⁴⁷ For background information on the FTAA see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J. F. Hornbeck.

⁴⁸ For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

⁴⁹ "The World Trade Organization: Unaccustomed Victory," *Economist*, December 14, 2013. For more information, see CRS Report IF10002, *The World Trade Organization at 20*, by Ian F. Fergusson.

⁵⁰ See, for example, Renata Agostini, "Acesso do Brasil ao Fluxo Global de Comércio Fica entre Menores do G20," *Folha de São Paulo*, June 26, 2015; "Chances Perdidas," *Correio Braziliense*, January 2, 2014; Sonia Filgueiras, "Olhar do Planalto – Sob o Risco do Isolamento," *Brasil Econômico*, December 18, 2013; Vera Thorstensen and Lucas Ferraz, *The Impacts of TTIP on Brazil*, Fundação Getulio Vargas, Study Sponsored by the Confederação Nacional da Indústria (CNI), November 2013.

⁵¹ For more information on these agreements, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson; and CRS Report R43387, *Transatlantic Trade and Investment Partnership (T-TIP) Negotiations*, by Shayerah Ilias Akhtar and Vivian C. Jones.

While some members of the Rousseff Administration agree that Brazil should accelerate its trade agreement negotiations, others maintain that opening up Brazil to more foreign trade would decimate Brazilian industry.⁵² In recent months, the Brazilian government has placed renewed emphasis on concluding an agreement between Mercosur and the EU and has begun to move forward with trade negotiations with other nations.⁵³ Further policy shifts will likely depend on how the TPP and TTIP negotiations advance and economic conditions in Brazil.

Bilateral Trade and Investment

Despite differences in trade policy and the lack of a free trade agreement, U.S.-Brazil trade has grown considerably over the past decade (see **Figure 2**). Between 2004 and 2014, U.S.-Brazil merchandise trade increased 74% to \$72.8 billion. U.S. goods exports to Brazil increased 206% to \$42.4 billion and U.S. goods imports from Brazil increased 43% to \$30.3 billion. As a result of the relatively faster growth of U.S. exports compared to imports (which declined significantly in the aftermath of the financial crisis), the United States has run a trade surplus in goods with Brazil since 2008. In 2014, the surplus was valued at \$12.1 billion.⁵⁴ Top U.S. goods exports to Brazil included refined oil products, heavy and electric machinery, civilian aircraft and parts, and medical equipment. Top U.S. goods imports from Brazil included crude oil, iron and steel, civilian aircraft, machinery, and coffee. In 2014, Brazil was the United States' ninth-largest trading partner, and the United States was Brazil's second-largest trading partner, behind China.⁵⁵

U.S.-Brazil services trade has grown even more quickly than merchandise trade, increasing by 406% between 2004 and 2013 (the most recent year for which data are available). In 2013, total trade in services amounted to \$34 billion. The United States continued to run a substantial trade surplus, valued at \$19.3 billion, as U.S. services exports to Brazil totaled \$26.6 billion and U.S. services imports from Brazil totaled \$7.3 billion. Travel, transport, telecommunications, and intellectual property charges were the top categories of U.S. services exports to Brazil while business services was the top category of U.S. imports from Brazil.⁵⁶ In 2014, nearly 2.3 million Brazilians visited the United States, spending an estimated \$13 billion on travel and tourism.⁵⁷

Brazil benefits from the Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain products imported from designated developing countries. Legal authorization for the GSP program expired on July 31, 2013, but the program was reauthorized and extended through 2017 after Congress passed and the President signed into law the Trade Preferences Extension Act of 2015 (P.L. 114-27) in June 2015.⁵⁸ In 2012, the last

⁵² "Brasil Debe Acelerar Pactos Internacionales de Comercio: Jefe de Gabinete," Reuters, November 19, 2014; "Brazil Trade Minister Says Opening Up Trade Would Be 'Disaster' – Paper," Reuters, September 27, 2014.

⁵³ Patrícia Campos Mello and Renata Agostini, "Governo Negocia Compras Públicas e Apressa Seis Acordos Comerciais," *Folha de São Paulo*, August 7, 2015.

⁵⁴ U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, June 2015.

⁵⁵ U.S. Department of Commerce and República Federativa do Brasil, Secretaria de Comércio Exterior (SECEX) data, as made available by *Global Trade Atlas*, June 2015.

⁵⁶ U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Trade in Services, by Country or Affiliation and by Type of Service," November 2014.

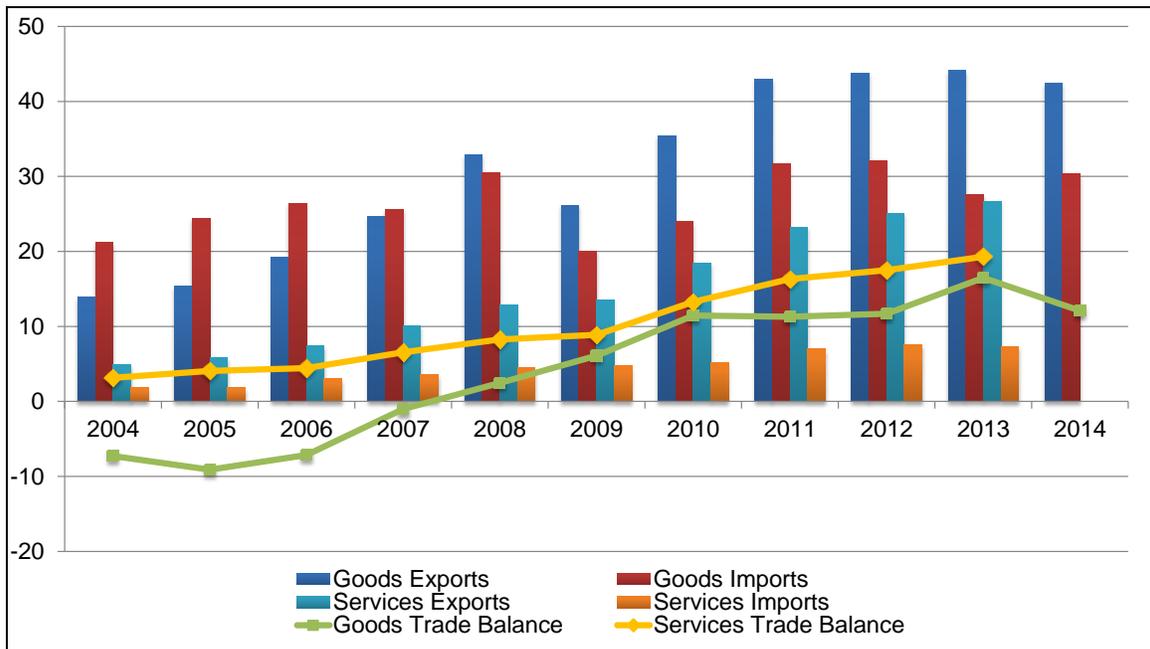
⁵⁷ U.S. Department of Commerce, International Trade Administration, National Travel and Tourism Office, *2014 Market Profile: Brazil*, June 2015, http://travel.trade.gov/outreachpages/download_data_table/2014_Brazil_Market_Profile.pdf.

⁵⁸ For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

full year that the GSP program was in effect, Brazil was the third-largest beneficiary. The country's duty-free imports to the United States under the GSP program were valued at \$2.3 billion, equivalent to about 7% of all U.S. imports from Brazil in 2012.⁵⁹ Some observers have questioned the inclusion of Brazil and other upper-middle-income countries in the GSP program; the European Union removed such countries from its GSP program as of 2014.⁶⁰

Figure 2. U.S. Trade with Brazil: 2004-2014

In billions of U.S. dollars



Source: CRS presentation of U.S. Department of Commerce data.

Notes: 2014 services trade data are not yet available.

Foreign direct investment (FDI) between the United States and Brazil currently flows mostly in one direction, toward Brazil. As of 2014, the accumulated stock of U.S. FDI in Brazil was \$70.5 billion, with significant investments in manufacturing and finance, among other sectors. The stock of Brazilian FDI in the United States totaled \$616 million in 2014.⁶¹

Cotton Dispute⁶²

In October 2014, Brazil and the United States appeared to resolve a more than decade-long dispute over U.S. government support for cotton farmers. In 2002, Brazil went to the WTO to challenge several provisions of the U.S. cotton program. A WTO dispute settlement panel ruled in Brazil's favor in 2004, finding that certain U.S. agricultural support payments and export

⁵⁹ U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, March 2014.

⁶⁰ European Commission, "New GSP as of 2014," December 18, 2013.

⁶¹ U.S. Department of Commerce, Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data," November 2014.

⁶² For more information on the U.S.-Brazil WTO cotton dispute, see CRS Report R43336, *Status of the WTO Brazil-U.S. Cotton Case*, by Randy Schnepf.

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. 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. This included \$591 million in higher tariffs on a range of U.S. products and \$239 million through suspension of certain intellectual property rights obligations.

The United States reached a temporary agreement with Brazil in June 2010 to avoid the WTO-sanctioned retaliatory measures. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress had an opportunity to adjust the subsidy program in a reauthorization of the farm bill.⁶³

The U.S. government stopped complying with the temporary agreement in 2013, making only a portion of the required monthly payment in September 2013 and then stopping payments altogether as of October 2013. Secretary of Agriculture Tom Vilsack reportedly asserted that the partial payment was required by budget sequestration and that he had no authority to continue making payments once the farm bill expired at the end of September 2013.⁶⁴ The suspension of payments led the Brazilian government to once again explore retaliatory measures.⁶⁵

In February 2014, President Obama signed into law a new farm bill (P.L. 113-79). According to the conference report accompanying the act (H.Rept. 113-333), the legislation included several substantive changes to U.S. cotton support programs and the export credit guarantee program in order to resolve the dispute with Brazil. Nevertheless, Brazil's Foreign Trade Board (*Câmara de Comércio Exterior*, CAMEX) asserted that the farm bill contains elements that will continue to distort the international cotton market, and authorized the Brazilian government to request a WTO panel to assess whether the farm bill brings the United States into compliance with previous rulings.⁶⁶

Rather than requesting a new WTO compliance panel, Brazil reached a settlement with the United States. According to the memorandum of understanding signed in October 2014, the United States agreed to make a final one-time payment of \$300 million to the Brazil Cotton Institute and make some additional changes to its export credit guarantee program. In exchange, Brazil agreed not to challenge U.S. cotton support programs at the WTO prior to September 30, 2018.⁶⁷

Energy Ties

Energy is another important area of U.S.-Brazilian cooperation. Brazil is the world's second-largest producer of ethanol (after the United States). It has also discovered large offshore oil

⁶³ 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.

⁶⁴ William Mauldin, "U.S. to Stop Brazil Farm Payments; Sequester Will Stop Assistance Related to Cotton Dispute," *Wall Street Journal*, August 7, 2013.

⁶⁵ República Federativa do Brasil, Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 105, de 18 de Dezembro de 2013*.

⁶⁶ CAMEX, "CAMEX Autoriza Abertura de Painel na OMC sobre Legislação Agrícola Norte-Americana," February 19, 2014.

⁶⁷ The Memorandum of Understanding Related to the Cotton Dispute (WT/DS267) is available at <http://www.ustr.gov/sites/default/files/20141001201606893.pdf>.

deposits that have the potential to turn the country into a major oil and gas producer. President Obama and President Rousseff launched a Strategic Energy Dialogue in 2011 to facilitate greater cooperation in the development of safe, secure, and affordable energy. During their June 2015 meeting, they agreed to renew the dialogue and endorsed cooperation on biofuels; oil and natural gas; civil nuclear energy; renewable energy; and energy-related science. They also announced a joint goal of increasing the share of renewables—beyond hydropower—in the Brazilian and U.S. electricity generation mixes to 20% by 2030.⁶⁸

Biofuels

In response to sharp increases in global oil prices in the 1970s, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol. Today, most cars in Brazil are capable of running on pure ethanol, which is available at nearly every fueling station, or gasoline, which is required to include an 18-27.5% ethanol blend.⁶⁹ The Brazilian ethanol sector has struggled in recent years, however, due to poor harvests and lower demand resulting from the Brazilian government's policy of capping gasoline prices to hold down inflation.⁷⁰ Consequently, the ethanol industry has seen lower levels of investment and production. The Brazilian government has sought to provide some relief to the ethanol industry by raising gasoline prices, increasing the ethanol blend requirement, and reducing taxes on ethanol. Nevertheless, some analysts maintain that the lack of transparency and certainty regarding how gasoline prices are determined are likely to continue to discourage investment in the industry.⁷¹ In 2014, Brazil produced 497,000 barrels per day of ethanol, which was an increase of 3.6% compared to 2013.⁷²

In 2007, the United States and Brazil, the world's two largest ethanol-producing and consuming countries, signed a memorandum of understanding to promote greater cooperation on ethanol and other biofuels. The agreement involves (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and (3) multilateral efforts to advance the global development of biofuels.⁷³

Since then, the United States and Brazil have moved forward on all three facets of the agreement. Bilaterally, the U.S. and Brazilian governments have attempted to improve methods for modeling the sustainability of biofuels, including their effects on greenhouse gas emissions and land use, and have exchanged information on how to maximize fuel economy in flex-fuel vehicles. They are also coordinating efforts to develop sustainable aviation biofuels. At the same time, the U.S. and Brazilian governments are working together in third countries and have provided joint technical assistance designed to strengthen policy frameworks, implement blending laws, and develop domestic production capabilities in the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal. Multilaterally, the United States and Brazil have worked

⁶⁸ White House, Office of the Press Secretary, "Joint Communique by President Barack Obama and President Dilma Rousseff," press release, June 30, 2015; and White House, Office of the Press Secretary, "Fact Sheet: The United States and Brazil – A Mature and Multi-Faceted Partnership," press release, June 30, 2015.

⁶⁹ "Brazil's President Signs Higher Ethanol Blend into Law," Reuters, September 25, 2014.

⁷⁰ "Brazil Offers Tax Breaks to Ethanol Exporters," EFE News Service, September 10, 2014.

⁷¹ Claire Casey, "Is Brazil the Energy Power of the Future (and Always Will Be)?" *Americas Quarterly* (Summer 2013).

⁷² Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), *Oil, Natural Gas and Biofuels Statistical Yearbook 2015*, July 2015.

⁷³ U.S. Department of State, Office of the Spokesman, "Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels," March 9, 2007, <http://www.state.gov/p/wha/rls/158654.htm>.

with other members of the Global Bioenergy Partnership (GBEP) to promote the sustainable production and use of modern bioenergy.⁷⁴

In addition to these efforts, Brazil and the United States have taken steps to liberalize trade in ethanol. In December 2011, the Brazilian government issued a resolution to extend its duty-free treatment of imported ethanol until December 31, 2015.⁷⁵ Similarly, the U.S. Congress allowed a 54-cent-per-gallon duty on imported ethanol to expire at the end of 2011. Prior to its expiration, the duty served as a significant barrier to direct imports of Brazilian ethanol in most years.⁷⁶ Nevertheless, total bilateral ethanol trade has declined since then, falling from 33,000 barrels per day in 2011 to 10,000 barrels per day in 2014. In 2014, the United States exported 7,000 barrels per day of fuel ethanol to Brazil and imported 3,000 barrels per day from Brazil.⁷⁷

Oil

Since 2007, Brazil has discovered substantial new offshore oil fields that have the potential to turn the country into one of the top five oil and gas producers in the world.⁷⁸ The new discoveries are so-called “pre-salt” reserves, located beneath layers of rock and salt more than 18,000 feet below the ocean surface.⁷⁹ In 2014, Brazil’s proven oil reserves stood at 16.2 billion barrels (equivalent to 1% of global reserves), and Brazilian oil production reached 2.3 million barrels per day (equivalent to 2.9% of global production).⁸⁰

In December 2010, the Brazilian Congress approved a new regulatory framework for developing the approximately 70% of pre-salt reserves that had not already been auctioned off.⁸¹ The new framework increased the role of the Brazilian government and is designed to ensure that the country’s resources are used to fuel long-term economic and social development. Among other provisions, the framework established state-owned Petrobras as the sole operator for all new offshore projects; replaced the existing concessionary model with a production sharing regime; guaranteed Petrobras a minimum 30% stake in all joint ventures; created a public company—Petrosal—to manage the development of the offshore reserves; increased local content requirements; and created a new social fund overseen by the Brazilian Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.⁸² The Brazilian Congress continued to debate legislation regarding the distribution of oil royalties until March 2013.

⁷⁴ White House, Office of the Press Secretary, “Fact Sheet: The U.S.-Brazil Strategic Energy Dialogue,” April 9, 2012.

⁷⁵ Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 94, de 8 de Dezembro de 2011*.

⁷⁶ Although some Brazilian ethanol was allowed to enter the United States duty-free after being reprocessed in Caribbean Basin Initiative (CBI) countries, such imports could only account for up to 7% of the U.S. ethanol market. A 2.5% ad valorem tariff on ethanol imports to the United States remains in place permanently unless the Harmonized Tariff Schedule code is changed.

⁷⁷ U.S. Energy Information Administration (EIA), “Petroleum & Other Liquids: Data,” May 28, 2015.

⁷⁸ Mark S. Langevin, *Brazil’s Hydrocarbon Bonanza: Can the State Manage Pre-Salt Production for National Development and Geopolitical Power?* Brazil-Works, Discussion Paper, May 2012.

⁷⁹ EIA, *Country Analysis Briefs: Brazil*, December 29, 2014, http://www.eia.gov/beta/international/analysis_includes/countries_long/Brazil/brazil.pdf.

⁸⁰ BP, *BP Statistical Review of World Energy*, June 2015, p. 6, <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf>.

⁸¹ Langevin, 2012, op. cit.

⁸² “Brazil Congress Passes Oil Industry Overhaul,” Reuters, December 1, 2010; “The Impact of Pre-Salt: A Long-Term Perspective,” *Oxford Analytica*, May 2010.

The delay in approving the new regulatory framework and royalty distribution law prevented Brazil's National Agency of Petroleum, Natural Gas, and Biofuels (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*, ANP) from auctioning new concessions for nearly five years. As a result, oil production did not increase as quickly as originally predicted and actually declined from 2011-2013. The ANP held its first auction of pre-salt concessions under the new regulatory framework in October 2013. While it reportedly had expected more than 40 companies to participate, only 11 companies signed up for the auction, and a consortium of five companies (Petrobras, Royal Dutch Shell, Total, China National Petroleum Corporation, and China National Offshore Oil Corporation) was the sole bidder.⁸³

Many energy analysts maintain that Brazil needs to modify its regulatory framework in order to attract the investment necessary to develop its reserves and accelerate production. Brazil's energy minister and some Petrobras officials agree with that assessment and have called for changes, such as loosening local content requirements and reversing the requirement that Petrobras hold a 30% minimum stake in all projects. Some Brazilian officials are concerned that investigations into the Petrobras corruption scandal, including those being conducted by the U.S. Department of Justice and the Securities and Exchange Commission (SEC), could impede investment and hinder Petrobras operations.⁸⁴ This has led to a renewed focus on regulatory changes that would allow foreign companies to play a larger role in developing Brazil's offshore resources. While the Brazilian Congress has begun considering potential changes, President Rousseff has voiced opposition to such reforms.⁸⁵

U.S.-Brazilian oil trade has expanded significantly over the past decade (see **Figure 3**). U.S. crude oil imports from Brazil grew rapidly from 51,000 barrels per day in 2004 to 295,000 barrels per day in 2009. They have declined since then, however, as U.S. consumption has fallen and U.S. domestic production has increased. In 2014, the United States imported 145,000 barrels per day of crude oil from Brazil, which was equivalent to about 2% of total U.S. crude imports. U.S. exports of refined products to Brazil have also grown quickly, increasing nearly 700% from 27,000 barrels per day in 2004 to 215,000 barrels per day in 2014. As a result, U.S. refined product exports to Brazil have exceeded U.S. crude imports from Brazil for the past two years.⁸⁶ Brazil has been forced to increasingly rely on imports as its consumption has grown more quickly than its production and refinery capacity. Some energy analysts expect this trend to continue until at least 2017, when two new Brazilian refineries are scheduled to begin operations.⁸⁷

⁸³ "Weak Libra Interest Rounds Out a Rough Week for Brazil's Rousseff," *Latin News Daily Report*, September 20, 2013; "Brazil's Oil Revolution Gets Off to a Slippery Start," *Latin News Daily Report*, October 22, 2013.

⁸⁴ Valdo Cruz, "Investigação dos EUA Preocupa Planalto," *Folha de São Paulo*, November 11, 2014.

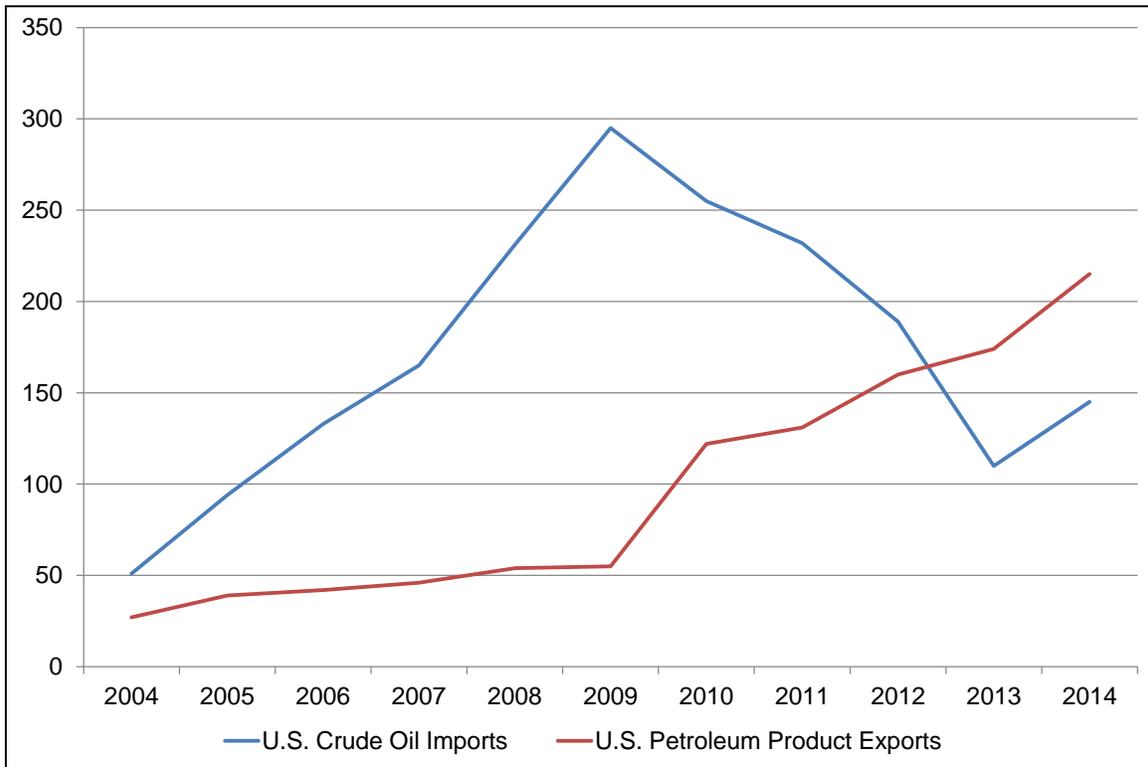
⁸⁵ Paul Kiernan, "Brazilian President Stands by Oil Rules; Energy Minister, Petrobras Favor Loosening Regulations, But Rousseff Pushes Back," *Wall Street Journal*, May 14, 2015;

⁸⁶ EIA, "Petroleum & Other Liquids: Data," May 28, 2015.

⁸⁷ Jeb Blount, "Analysis: Petrobras Fuel Woes Make Brazil Dependent on U.S., India," Reuters, January 22, 2014.

Figure 3. U.S. Oil Trade with Brazil: 2004-2014

In thousands of barrels per day



Source: CRS presentation of U.S. Energy Information Administration (EIA) data.

Security Cooperation

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

Counternarcotics

Brazil is not a major drug-producing country, but it is the world's second-largest consumer of cocaine hydrochloride and likely the world's largest consumer of cocaine-base products. It also serves as a transit point for illicit drugs destined for Europe.⁸⁸ Security analysts contend that organized crime in Brazil has increased in scope and scale over the past decade as the drug trade has expanded. Some of the country's large, well-organized, and heavily armed criminal groups, such as the Red Command (*Comando Vermelho*, CV) and the First Capital Command (*Primeiro Comando da Capital*, PCC), have reportedly begun to operate transnationally, eliminating intermediaries in order to control cross-border trafficking.⁸⁹

⁸⁸ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2015 International Narcotics Control Strategy Report (INCSR), Volume I: Drug and Chemical Control*, March 18, 2015, <http://www.state.gov/j/inl/rls/nrcrpt/2015/vol1/238949.htm>.

⁸⁹ Robert Muggah and Gustavo Diniz, *Securing the Border: Brazil's "South America First" Approach to Transnational Organized Crime*, Igarapé Institute, Strategic Paper 5, October 2013, <http://pt.igarape.org.br/wp-content/uploads/2013/> (continued...)

In recognition of these challenges, Brazil has taken several steps to improve its antidrug efforts. In 2004, it implemented an air bridge denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also sought to improve security along the 15,719 kilometer border that it shares with 10 nations, including the region's cocaine producers—Bolivia, Colombia, and Peru. Under its Strategic Border Plan, introduced in 2011, the Brazilian government has deployed inter-agency resources, including unmanned aerial vehicles (UAVs), to monitor illicit activity in high-risk locations along its borders and in the remote Amazon region. It has also signed agreements and carried out joint operations with neighboring countries. In 2014, Brazilian authorities reportedly seized 25.6 metric tons of cocaine and 159.6 metric tons of marijuana.⁹⁰

In 2008, the U.S. and Brazilian governments signed a memorandum of understanding designed to enhance the capacity of Brazilian authorities to combat drug trafficking and reduce domestic drug demand. To these ends, the United States provided training to Brazilian law enforcement on topics such as investigative techniques and money laundering and provided support to nongovernmental organizations creating anti-drug community coalitions in 2014.⁹¹ U.S. counternarcotics assistance to Brazil amounted to \$3.5 million in FY2012, \$1.9 million in FY2013, and \$15,000 in FY2014.⁹² The Obama Administration did not request any counternarcotics assistance for Brazil in FY2015 or FY2016.⁹³

Counterterrorism⁹⁴

According to the State Department's *Country Reports on Terrorism*, there are no confirmed operational cells of al Qaeda or Hezbollah in the Western Hemisphere, but ideological sympathizers provide financial and moral support to those and other terrorist groups in the Middle East and South Asia.⁹⁵ In 2010, for example, the U.S. Treasury Department sanctioned Hezbollah's chief representative in South America, Bilal Mohsen Wehbe, for transferring funds collected in Brazil to Hezbollah in Lebanon. According to the Treasury Department, Wehbe and an associate raised more than \$500,000 from Lebanese businessmen in the tri-border area of Argentina, Brazil, and Paraguay following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly had overseen Hezbollah's counterintelligence activity in the tri-border area and had worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.⁹⁶

The U.S. government has worked with Brazil to address concerns about the tri-border area and strengthen the country's counterterrorism capabilities. The countries of the tri-border area and the

(...continued)

10/SP_05_EN_Securing-the-border_7th_oct.pdf.

⁹⁰ INCSR, 2015, op. cit.

⁹¹ Ibid.

⁹² U.S. Department of State, USAID, and U.S. Department of Defense data as presented by the *Foreign Assistance Dashboard*, accessed August 2015.

⁹³ U.S. Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2016*, February 27, 2015, <http://www.state.gov/documents/organization/238222.pdf>.

⁹⁴ For more information on terrorism concerns in Latin America, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan and June S. Beittel.

⁹⁵ U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2014*, April 2015, <http://www.state.gov/j/ct/rls/crt/2014/239409.htm>.

⁹⁶ U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," press release, December 9, 2010.

United States created 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 2007. Within Brazil, the United States has supported efforts to implement the Container Security Initiative (CSI) at the port of Santos, and U.S. agencies have trained Brazilian airline employees on identifying fraudulent documents. U.S. authorities also have provided training to officials from each of the three Brazilian law enforcement agencies with counterterrorism responsibilities on topics such as infrastructure security, crisis incident management, and digital network security. These training programs are designed to enhance the Brazilian government’s investigative capabilities and support efforts to prevent terrorist attacks at the 2016 Summer Olympic Games.⁹⁷

The State Department’s *Country Reports on Terrorism* for 2014 recognized the Brazilian government’s continued support for counterterrorism-related activities, including pursuing investigative leads provided by the U.S. government regarding terrorist suspects. Brazil lacks antiterrorism legislation, however, which reportedly hinders prosecutions of potential terrorists.⁹⁸ Like many other Latin American nations, Brazil has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as “terrorism” by repressive military regimes in the past. Nevertheless, Brazil’s Chamber of Deputies approved a bill in August 2015 that would define terrorism and make terrorism, terrorist financing, and the intent to commit terrorism autonomous offenses.⁹⁹ The bill still needs to be approved by the Federal Senate and President Rousseff in order to become law.

Defense

U.S.-Brazil military cooperation has increased significantly in recent years. In the aftermath of the January 2010 earthquake in Haiti, U.S. and Brazilian military forces engaged in their largest combined operations since World War II. Later that year, the U.S. and Brazilian governments signed a Defense Cooperation Agreement designed to promote cooperation in areas such as research and development, technology security, and acquisition of defense products and services, and a General Security of Military Information Agreement designed to facilitate the sharing of classified defense and military information.¹⁰⁰ In an effort to elevate defense ties further, President Rousseff joined with President Obama in 2012 to launch a presidential-level Defense Cooperation Dialogue. While the cooling of bilateral relations in the aftermath of the NSA revelations affected U.S.-Brazilian defense ties, military-to-military cooperation at the operational and tactical levels reportedly remained strong.¹⁰¹ The Defense Cooperation Agreement and the General Security of Military Information Agreement, which had been awaiting approval from Brazil’s Congress since 2010, were adopted and entered into force in June 2015 prior to President Rousseff’s trip to the United States.

⁹⁷ U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2014*, April 2015, <http://www.state.gov/j/ct/rls/crt/2014/239409.htm>.

⁹⁸ Ibid.

⁹⁹ Câmara dos Deputados, “Aprovado Texto-base de Projeto que Prevê Pena de até 30 Anos para Terrorismo,” press release, August 12, 2015.

¹⁰⁰ U.S. Department of Defense, Office of the Secretary of Defense, “Fact Sheet: U.S.-Brazil Defense Cooperation,” March 14, 2011.

¹⁰¹ General John F. Kelly, Commander, United States Southern Command, *Posture Statement before the 113th Congress House Armed Services Committee*, February 26, 2014, p. 21, http://www.southcom.mil/newsroom/Documents/2014_SOUTHCOM_Posture_Statement_HASC_FINAL_PDF.pdf.

As previously noted, the United States provides security assistance, including military training, to Brazil. This assistance is designed to strengthen military-to-military relationships, increase the professionalization of Brazilian forces, and enhance Brazil's capacity to assume a larger role in peacekeeping operations and in combating terrorism. The U.S. Department of Defense and the U.S. Department of State provided nearly \$2 million in military training assistance to about 110 Brazilians in FY2014. The Brazilian government paid for another 124 Brazilians to receive over \$8 million in U.S. training through the Foreign Military Sales (FMS) program. In FY2015, the State and Defense Departments plan to provide \$662,000 in military training assistance to about 50 Brazilians. They plan to train 72 more Brazilians with \$1.5 million in Brazilian funding through the FMS program.¹⁰²

Promotion of Racial Equality

While Brazilians have experienced significant improvements in economic and social conditions over the past decade, racial disparities persist. Afro-Brazilians, who comprise about half of the Brazilian population,¹⁰³ account for less than 25% of Brazilians that have completed post-secondary degrees and 17% of Brazilians that have completed graduate degrees.¹⁰⁴ In 2010, the median income of Afro-Brazilians was 64% of the median income of white Brazilians.¹⁰⁵ Even after controlling for education, occupation, and location, white Brazilians reportedly receive higher wages than Afro-Brazilians.¹⁰⁶ Moreover, Afro-Brazilians are disproportionately the victims of Brazil's high levels of crime and violence. In 2010, the homicide rate for Afro-Brazilians was 36.5 per 100,000—nearly two and a half times the rate of other Brazilians.¹⁰⁷

In order to reduce racial disparities, the Brazilian government has enacted a series of antidiscrimination and affirmative action measures. Brazil became the first Latin American country to endorse racial quotas in government service in 2002, and became the first country in the world to establish a special secretariat with a ministerial rank to manage racial equity promotion policies in 2003. In 2010, Brazil enacted the Statute of Racial Equality, which offers tax incentives for businesses that undertake racial inclusion, calls on the government to adopt affirmative action programs, and reaffirms that African and Afro-Brazilian history should be taught in all elementary and middle schools, among other provisions. In 2012, Brazil adopted a law that requires federal universities to reserve half of their admissions spots for students who are Afro-Brazilian, indigenous, or graduates of public high schools (which tend to serve the poorest students). The law gradually increases the admissions spots required to be reserved from 12.5% in 2013 to 50% in 2016, with half of the reserved spots set aside for low-income students of all races with the highest grades and the other half divided in accordance with the racial makeup of each state.¹⁰⁸ Most recently, President Rousseff enacted a law in June 2014 that reserves 20% of jobs in

¹⁰² U.S. Department of Defense and U.S. Department of State, *Foreign Military Training, Fiscal Years 2014 and 2015, Volume I*, 2015, <http://www.state.gov/documents/organization/243026.pdf>.

¹⁰³ According to Brazil's 2010 census, 43.1% of Brazilians self-identify as *pardo* ("mixed race") and 7.6% self-identify as *preto* ("black"). IBGE, *Censo Demográfico 2010*, November 2011.

¹⁰⁴ Tatiana Dias Silva and Fernanda Lira Goes, *Igualdade Racial no Brasil: Reflexões no Ano Internacional dos Afrodescendentes*, Instituto de Pesquisa Econômica Aplicada (IPEA), Rio de Janeiro, 2013, p. 20.

¹⁰⁵ IBGE, 2011, *op. cit.*

¹⁰⁶ Dias & Goes, 2013, *op. cit.*, p.21.

¹⁰⁷ Daniel R. C. Cerqueira and Rodrigo Leandro de Moura, *Vidas Perdidas e Racismo no Brasil*, IPEA, Nota Técnica N° 10, Brasília, November 2013, p. 6.

¹⁰⁸ Simon Romero, "Brazil Enacts Affirmative Action Law for Universities," *New York Times*, August 30, 2012; "Rousseff Decrees Affirmative Action," *Latin News Daily Report*, October 16, 2012.

the Brazilian executive branch and state-owned enterprises for Afro-Brazilians.¹⁰⁹ Although race-based affirmative action policies are controversial among some sectors of the Brazilian population,¹¹⁰ they have been upheld as constitutional by the Brazilian Supreme Court.

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative recognizes that Brazil and the United States are multi-ethnic, multi-racial democracies, and seeks to promote equality of opportunity for the members of all racial and ethnic communities. To that end, Brazil and the United States share best practices through activities such as training programs, workshops, technical expert exchanges, scholarships, and public-private partnerships.¹¹¹ The initiative has focused on expanding access to education for students of African descent, eliminating racial health disparities, mitigating environmental impacts in communities of African descent, addressing challenges in criminal justice systems, and guaranteeing equal access to economic opportunities.¹¹² Congress recommended providing resources to continue and strengthen the initiative in FY2015 according to H.Rept. 113-499, which is considered part of the explanatory statement accompanying the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235).

Amazon Conservation

The Amazon Basin is estimated to span more than 6.8 million square kilometers. It produces about 20% of the world's fresh water discharge and contains the largest remaining rainforest on Earth.¹¹³ In addition to supporting significant biological diversity, the Amazon Rainforest is a global sink for carbon emissions and an important asset in the mitigation of climate change. The forest biomass is estimated to hold about 100 billion tons of carbon, which is equivalent to more than 10 years of global fossil fuel emissions.¹¹⁴

About 69% of the Amazon Basin, which is shared by seven nations,¹¹⁵ lies within Brazil.¹¹⁶ 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. Partially as a result of these incentives, the human population grew from 6 million in 1960 to 25 million in 2010. Forest cover in the Brazilian Amazon has declined to about 80% of its original area as a result of settlements, roads, logging, farming, and other activities in the region.¹¹⁷

¹⁰⁹ "Brazil Enacts 20 Percent Quotas for Blacks in Federal Jobs," Agence France Presse, June 9, 2014.

¹¹⁰ See, for example, Diogo Schelp, "Queremos Dividir o Brasil como na Foto?" *Veja*, September 2, 2009; and Julia Carvalho, "O Grande Erro das Cotas," *Veja*, August 29, 2012.

¹¹¹ U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality," April 11, 2012.

¹¹² U.S. Department of State, Office of the Spokesperson, "Steering Group Meeting of the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality," media note, July 17, 2013.

¹¹³ United Nations Environment Programme (UNEP), *Global International Waters Assessment: Amazon Basin*, GIWA Regional Assessment 40b, Kalmar, Sweden, 2004, http://www.unep.org/dewa/giwa/areas/reports/r40b/giwa_regional_assessment_40b.pdf.

¹¹⁴ Eric A. Davidson et al., "The Amazon Basin in Transition," *Nature*, vol. 481 (January 19, 2012), p. 321.

¹¹⁵ The seven nations that share the Amazon Basin are Brazil, Bolivia, Colombia, Ecuador, Guyana, Peru, and Venezuela. The Amazon Rainforest extends beyond the Amazon Basin into Suriname and French Guiana.

¹¹⁶ UNEP, 2004, op. cit.

¹¹⁷ Davidson et al., 2012, op. cit., p. 321.

Recognizing that continued destruction of the Amazon Rainforest is damaging to Brazil's global image and could threaten hydroelectricity generation and agricultural production,¹¹⁸ the Brazilian government has implemented a series of policies designed to slow deforestation. In 2002, for example, it created the Amazon Protected Areas Program, which now includes some 600,000 square kilometers of forest.¹¹⁹ Likewise, the Brazilian government adopted a plan to reduce the rate of Amazon deforestation by 80%—based on the 1996-2005 average—to 3,925 square kilometers per year by 2020. To meet this target, the Brazilian government has increased surveillance and financed sustainable development projects.¹²⁰ Brazil appears to be on track to achieve its goal, as annual deforestation has fallen from 27,772 square kilometers in 2004 to 4,848 square kilometers in 2014 (see **Figure 4**).¹²¹ A 2012 study found that about half of the reduction in deforestation in the Brazilian Amazon between 2005 and 2009 was attributable to the Brazilian government's conservation policies, though lower commodity prices also contributed to the decline.¹²² President Rousseff and President Obama issued a "U.S.-Brazil Joint Statement on Climate Change" during their June 2015 meeting, which included a Brazilian pledge to restore and reforest 120,000 square kilometers of forests by 2030.¹²³

Despite recent progress, Brazil's deforestation rate increased by nearly 29% between 2012 and 2013. Although it fell by about 18% between 2013 and 2014, the deforestation rate remains higher than it was in 2012. Some analysts have attributed the increase in deforestation to government policy changes. In 2011, President Rousseff signed a law transferring responsibility for environmental oversight of nonfederal lands from Brazil's federal environmental protection agency to local officials. The federal government maintains that local officials are better placed to manage such resources, but critics argue that local authorities lack the necessary finances and are more susceptible to intimidation and corruption.¹²⁴ In 2012, the Brazilian Congress approved a major overhaul of the forest code—a law that requires rural landowners to set aside 20%-80% of their land for natural vegetation. President Rousseff vetoed some of the most controversial provisions of the legislation, but the final version relaxed conservation requirements for environmentally sensitive areas like river banks, reduced reforestation requirements for land that had already been deforested, and decreased the total amount of forest that must be preserved.¹²⁵ Supporters of the reform assert that it was necessary in order to bring farmers into compliance with the law, and argue that the updated forest code remains among the strictest regulations of private property in the world.¹²⁶ Rousseff's decision to appoint two climate change skeptics who

¹¹⁸ See, for example, Fabiana Frayssinet, "Climate Change-Brazil: Farmers 'Have Good Reason to Worry,'" Inter Press Service, September 21, 2011; "Amazon Rainforest Begins to Fail to Regulate Climate – Scientist," BBC Monitoring Americas, November 5, 2014; and Mario Osava, "Brazil: Deforestation in the Amazon Aggravates Energy Crisis," Inter Press Service, April 3, 2015.

¹¹⁹ "Brazil to Spend \$216 Mn on Protected Areas in Amazon," EFE News Service, May 22, 2014.

¹²⁰ República Federativa do Brasil, Ministério do Meio Ambiente, *Plano de Ação para Prevenção e Controle do Desmatamento na Amazônia Legal (PPCDAm): 3ª Fase (2012-2015)*, Brasília, June 2013.

¹²¹ República Federativa do Brasil, Ministério da Ciência, Tecnologia e Inovação, Instituto Nacional de Pesquisas Espaciais (INPE), *Projeto PRODES, Monitoramento da Floresta Amazônica Brasileira por Satélite*, December 2014.

¹²² Juliano Assunção, Clarissa C. e Grandour, and Rudi Rocha, *Deforestation Slowdown in the Legal Amazon: Prices or Policies*, Climate Policy Initiative, Working Paper, Rio de Janeiro, February 6, 2012, <http://climatepolicyinitiative.org/wp-content/uploads/2012/03/Deforestation-Prices-or-Policies-Working-Paper.pdf>.

¹²³ White House, Office of the Press Secretary, "U.S.-Brazil Joint Statement on Climate Change," press release, June 30, 2015.

¹²⁴ Paulo Prada, "Special Report: Brazil Backslides on Protecting the Amazon," Reuters, August 3, 2012.

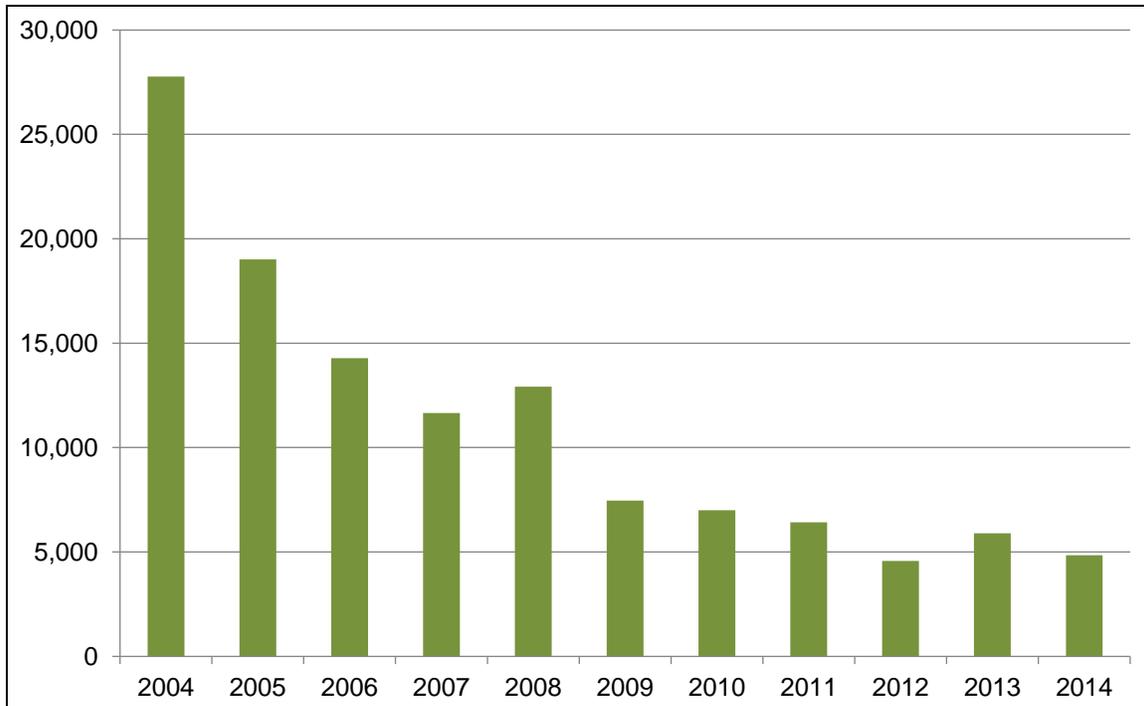
¹²⁵ "Brazil President Makes Final Changes to Forestry Law," Agence France Presse, October 18, 2012.

¹²⁶ Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," Reuters, June 1, 2011.

have clashed with environmentalists to her cabinet has raised further questions about her administration's commitment to conservation.¹²⁷

Figure 4. Deforestation in the Brazilian Amazon: 2004-2014

In square kilometers



Source: CRS presentation of data from the Brazilian government's *Instituto Nacional de Pesquisas Espaciais* (INPE).

The United States has provided assistance to Brazil designed to support tropical forest conservation through the promotion of sustainable land use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and other organizations working throughout the Amazon Basin to conserve the forest's biodiversity. USAID provided Brazil with \$10.8 million in FY2012, \$9.6 million in FY2013, and \$10.5 million in FY2014 to continue those programs.¹²⁸ The Obama Administration did not request any funds for conservation efforts in Brazil in FY2015 or FY2016. Nevertheless, the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) recommends providing \$10.5 million for environmental programs in the Brazilian Amazon this fiscal year. Likewise, the reports (H.Rept. 114-154 and S.Rept. 114-79) accompanying the FY2016 foreign aid appropriations bills reported in each house (H.R. 2772 and S. 1725) would provide \$10.5 million for conservation programs in the Brazilian Amazon.

In addition to providing foreign aid, the United States has signed a debt-for-nature agreement with Brazil under the Tropical Forest Conservation Act of 2008 (P.L. 105-214). According to the

¹²⁷ Hector Velasco, "Rise of Brazil's Ranching Queen Sparks Green Protests," *Agence France Presse*, December 24, 2014; Simon Romero, "Climatologists Balk as Brazil Picks Skeptic for Key Post," *New York Times*, January 6, 2015.

¹²⁸ USAID data, as presented by the *Foreign Assistance Dashboard*, November 2014.

2010 agreement, the United States is reducing Brazil's debt payments by \$21 million over five years. In exchange, the Brazilian government is committing those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in endangered areas outside of the Amazon Rainforest such as the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.¹²⁹

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¹²⁹ 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*.