



Brazil-U.S. Relations

Peter J. Meyer

Analyst in Latin American Affairs

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Summary

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

Dilma Rousseff of the ruling center-left Workers’ Party was inaugurated to a four-year presidential term on January 1, 2011. She is Brazil’s first female president. Rousseff inherited a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010). Her multiparty coalition holds significant majorities in both houses of Brazil’s legislature; however, keeping the unwieldy coalition together to advance her policy agenda has proven challenging. She has won approval for a truth commission to investigate abuses during the military regime but other important initiatives have yet to advance. Rousseff has lost six cabinet ministers to corruption scandals but remains popular. In January 2012, 59% of Brazilians approved of her Administration, the highest approval rating for an administration after one year in office since the return to democracy.

With a gross national income of \$1.83 trillion, Brazil is the largest economy in Latin America. Over the past five years, the country has enjoyed average annual growth of over 4%. This growth has been driven by a boom in international demand for its commodity exports and the increased purchasing power of Brazil’s fast-growing middle class. The country has also benefitted from a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have enabled Brazil to better absorb international shocks like the recent global financial crisis. After contracting by 0.3% in 2009, the Brazilian economy quickly bounced back with 7.5% growth in 2010. Although the economy has since slowed, with estimated growth of 2.9% in 2011, Brazil has the resources necessary to weather another potential downturn in the global economy.

The 112th Congress has maintained interest in U.S.-Brazil relations. It allowed a duty on Brazilian ethanol to expire at the end of 2011, removing a long-standing barrier to further energy and trade cooperation. Likewise, several pieces of legislation related to Brazil were introduced during the first session, including bills to suspend foreign assistance to Brazil (H.R. 2246) and the issuance of visas to Brazilian nationals (H.R. 2556) until the country amends its constitution to allow for the extradition of its citizens, and bills (H.R. 3039 and S. 1653) to accelerate visa processing for citizens of Brazil and other countries. As Congress debates the farm bill during the second session, it may evaluate potential changes to U.S. cotton subsidies that would ensure U.S. compliance with World Trade Organization rulings, and allow the United States to reach a permanent agreement with Brazil to avoid WTO-sanctioned retaliatory measures.

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

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Background

A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity—including 60% of the Amazon rainforest—and significant natural resources. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Brazil is the fifth-most populous country in the world with 190 million citizens (2010), primarily of European, African, or mixed descent.¹ Brazil’s diversified economy is the sixth largest in the world and the largest in Latin America.² In 2010, it had a gross national income (GNI) of \$1.83 trillion. Per capita GNI was only \$9,390, however, and the country has an unequal income distribution.³

Brazil has long held potential to become a world power, but its rise to prominence has been curtailed by setbacks, including 21 years of military rule, political instability, and uneven economic growth.⁴ Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in some other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. During the first decade after its return to democracy, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office and the other was impeached on corruption charges. Brazil was one of the last countries in the region to move away from state-led development; significant market-oriented policies were not implemented until the administration of Fernando Henrique Cardoso (1995-2002).

Brazil in Brief

Population: 190 Million (2010)

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

Religion: 74% Roman Catholic

Official Language: Portuguese

Life Expectancy: 73 years (2009)

Literacy Rate: 90% (2008)

Poverty Rate: 22.9% (2009)

Approximate Size: Slightly Smaller than the United States

GNI (Atlas Method): \$1.83 Trillion (2010)

GNI per Capita (Atlas Method): \$9,390 (2010)

Sources: U.S. State Department; World Bank, Oxford Analytica

¹ Brazil’s indigenous population consists of between 700,000 and 800,000 persons (less than 0.4% of Brazil’s total population), the majority of whom reside on indigenous lands in the Amazon and the center-west of the country. U.S. Department of State, *Country Reports on Human Rights Practices 2010: Brazil*, April 8, 2011.

² “Brazilian Economy Overtakes UK’s, Says CEBR,” *BBC News*, December 26, 2011.

³ World Bank, “World Development Indicators,” available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

⁴ For a historical overview of Brazil’s political development, see Riordan Roett, *The New Brazil* (Washington, DC: Brookings Institution, 2010).

Cardoso, a prominent sociologist of the centrist⁵ Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), was elected in 1994 as a result of the success of the anti-inflation “*Real Plan*” that he implemented as finance minister under President Itamar Franco (1992-1994). During his two terms in office, Cardoso brought inflation under control, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Although Cardoso’s popularity declined considerably during his second term as Brazil dealt with a series of financial crises, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has enjoyed over the past decade.⁶

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

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); however, it has steadily moved to the right since implementing market-oriented economic reforms during the Cardoso Administration. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

⁶ Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997; Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004.

Political Situation

Dilma Rousseff of the ruling center-left⁷ Workers' Party (*Partido dos Trabalhadores*, PT) was inaugurated to a four-year presidential term on January 1, 2011. She inherited a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010), during whose administrations the foundations for the country's current levels of economic growth and social inclusion were laid and built upon.⁸ Rousseff has pledged to consolidate and expand the economic and social gains made under her predecessor.

Her multiparty electoral coalition—composed of 10 parties of varying sizes and ideologies—holds significant majorities in both houses of Brazil's legislature. Although this legislative strength has enabled Rousseff to pursue portions of her policy agenda, keeping the unwieldy coalition together has proven challenging. Several parties in the coalition have expressed displeasure with Rousseff's attempts to constrain spending and her decisions to dismiss a number of officials accused of corruption. Nonetheless, she remains popular among the general population. In January 2012, 59% of Brazilians approved of the Rousseff Administration, the highest approval rating for an administration after one year in office since the return to democracy.⁹

The Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was first elected president of Brazil in 2002. The election was Lula's fourth attempt at the presidency as the candidate of the PT, which he helped found as a metalworker and union leader in the 1980s. Although Lula continued to advocate for stronger state support for Brazil's poor during the campaign, he moderated his earlier leftist rhetoric and promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. In doing so, Lula was able to calm international investors and win over portions of the Brazilian electorate that were disenchanted by economic stagnation and high unemployment at the conclusion of President Fernando Henrique Cardoso's eight years in power. After failing to win an absolute majority of the vote in the first round, Lula easily defeated the PSDB's José Serra—who served in Cardoso's cabinet—in the second round runoff election with over 61% of the vote.¹⁰

During his first term, Lula maintained the market-oriented economic policies associated with his predecessor while placing a greater emphasis on reducing poverty. By the end of his term, President Cardoso had established a three-pronged macroeconomic policy consisting of a primary fiscal surplus, an inflation target, and a floating exchange rate. Lula built upon the policy by

⁷ Although the PT was founded as a leftist party, it moved toward the ideological center upon taking office in 2002. Power and Zucco, 2009, op.cit.

⁸ See, for example, "Brazil's Presidential Election – Lula's Legacy," *Economist*, September 30, 2010; Juan Forero, "Cardoso vs. Lula: Two Brazilian Presidents Vie Over Who Turned Country Around," *Washington Post*, October 30, 2010; and Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

⁹ "Avaliação Dilma Rousseff – Janeiro de 2012," *Datafolha*, January 20, 2012.

¹⁰ "Brazil: Lula Elected President of Brazil," *Latin News Daily*, October 28, 2002.

raising the primary budget surplus, granting additional autonomy to the Central Bank, and enacting social security and tax reforms. Although the Lula Administration tightly controlled expenditures in its first years, it also reorganized and expanded some of the social programs initiated under Cardoso. One conditional cash transfer program, known as *Bolsa Familia* (Family Grant), provides monthly stipends to poor families in exchange for ensuring that their children attend school and receive proper medical care. Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in corruption scandals. A congressional inquiry eventually cleared the president of any direct responsibility, however, and Lula was elected to a second term in October 2006, defeating the PSDB's Gerardo Alekmin in a second round runoff with 61% of the vote.¹¹

After primarily focusing on economic stability during his first term, Lula established a larger role for the Brazilian state in the economy during his second term. He implemented several stimulus measures to accelerate economic growth and counteract the effects of the global financial crisis. He also expanded social programs like *Bolsa Familia* and launched new programs, such as *Minha Casa, Minha Vida* (My House, My Life)—an attempt to increase formal housing for low-income Brazilians.¹² Over the course of Lula's eight years in office, Brazil's real per capita income grew by nearly 24%, and some 24.6 million people escaped poverty.¹³ Just before leaving office, Lula won legislative approval for a new regulatory framework that will increase the state's role in the exploitation of Brazil's considerable offshore oil reserves in hopes of using the resources to fuel long-term economic and social development.¹⁴ (For more information, see "Oil" below.) Although some analysts have criticized Lula for allegedly protecting corrupt officials and not doing more to advance what they view as crucial economic, political, and social reforms,¹⁵ he won the support of the vast majority of the Brazilian public during his two terms, leaving office with an 87% approval rating.¹⁶

2010 Elections

On October 31, 2010, Dilma Rousseff of the ruling center-left Workers' Party (PT) won 56% of the vote to defeat José Serra of the centrist Brazilian Social Democracy Party (PSDB) in a second round presidential runoff election.¹⁷ The second round was necessary since Rousseff had fallen just short of an absolute majority—with 46.9% of the vote—in the first round election held on October 3, 2010.¹⁸ Given the strength of the Brazilian economy and Lula's overwhelming

¹¹ "Lula Wins Re-election by Landslide," *Latin News Daily*, October 30, 2006.

¹² Andrew Downie, "Brazil's Stimulus with a Ceiling (and Four Walls)," *Time*, April 22, 2009; "Brazil: Lula Raises Subsidies to Poorest Families," *Oxford Analytica*, August 3, 2009; "Lula's Legacy to Brazil," *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

¹³ World Bank, "World Development Indicators," <http://data.worldbank.org/data-catalog/world-development-indicators>; Marcelo Cortes Neri, *Os Emergentes dos Emergentes: Reflexões Globais e Ações para a Nova Classe Média Brasileira*, Fundação Getulio Vargas, Rio de Janeiro, June 27, 2011.

¹⁴ "Brazil Congress Approves Oil Law," *Latin News Daily*, December 2, 2010.

¹⁵ See, for example, Daniel Bramatti, "Lula, Sarney, Collor e Renan...por Lula, Sarney, Collor e Renan," *Estado de São Paulo*, August 9, 2009; "Brazil's Presidential Election – Lula's Legacy," *Economist*, September 30, 2010; and Paulo Kliass, "Lula's Political Economy: Crisis and Continuity," *North American Congress on Latin America (NACLA)*, March/April 2011.

¹⁶ Bradley Brooks, "Lula's Legacy, Leaving Behind a Transformed Brazil," *Associated Press*, December 27, 2010.

¹⁷ "Brazil: Lula Will Bolster—and May Hinder—Rousseff," *Oxford Analytica*, November 1, 2010.

¹⁸ Marina Silva, a former Lula Administration environment minister who ran for president as the candidate of the Green Party (*Partido Verde*, PV), outperformed the pre-election polls by taking 19.3% of the first round vote. Her (continued...)

popularity, both major candidates had largely promised continuity during the campaign, with Rousseff pledging to consolidate gains made during the Lula Administration and Serra proposing only relatively minor policy changes. Rousseff had never been elected to public office previously but was chosen by Lula to run as his successor. She served as minister of mines and energy from 2003-2005 and minister of the presidency from 2005-2010, before resigning to seek the presidency. Rousseff headed a 10-party electoral coalition with a running-mate from the centrist Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB).

In legislative elections conducted concurrently with the first round presidential election, Rousseff's coalition made significant gains in both houses of Congress. The PT now holds 88 of the 513 seats in the Chamber of Deputies and 14 of the 81 seats in the Senate, making it the largest party in the lower house and the second-largest party in the upper house. Together, the 10 parties of Rousseff's electoral coalition hold over 60% of the seats in both houses of Congress, large enough majorities to amend the constitution.¹⁹

The Rousseff Administration

Since taking office, President Rousseff has reiterated her pledge to consolidate and build upon the economic and social policies of the previous administration. During her first months as president, Rousseff made several attempts to constrain spending, cutting about \$32 billion (R\$50 billion) from the 2011 budget and limiting the increase in the minimum wage in order to ease inflationary pressures and maintain a primary surplus of 3.1% of gross domestic product (GDP).²⁰ As Brazil's economy has slowed, however, Rousseff has favored more expansionary fiscal policies. She launched a plan designed to eradicate extreme poverty by 2014, and announced a new industrial policy that includes tax cuts, financing, and trade measures designed to support Brazilian manufacturers.²¹ In November 2011, President Rousseff—who was imprisoned and tortured by the country's military government—signed a law establishing a truth commission to investigate human rights abuses committed during the authoritarian period (1964-1985). Unlike many South American countries, Brazil has never taken steps to address human rights violations committed by the military. The truth commission will have subpoena power and complete access to government documents, but will not result in prosecutions since a 1979 amnesty law remains in place.²² Several other controversial issues remain on the Rousseff Administration's agenda, including a new revenue sharing framework for the country's offshore oil reserves, a revision of the conservation requirements in the forest code, and regulations for the 2014 World Cup.

(...continued)

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

¹⁹ Tribunal Superior Eleitoral, January 5, 2010, <http://www.tse.gov.br/internet/index.html>.

²⁰ "Brazil: Rousseff's Strong Start Boosts Confidence," *Oxford Analytica*, April 7, 2011.

²¹ Paulo Prada, "The Easy Credit That Fueled Brazil's Boom Now Imperils It," *Wall Street Journal*, June 13, 2011; "Rousseff Launches Anti-Poverty Plan in Brazil," *Agence France Presse*, June 2, 2011; "Brazil: Propping Up Industry," *Economist Intelligence Unit*, August 15, 2011.

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

President Dilma Rousseff

- Born in 1947 to a Bulgarian immigrant father and a Brazilian mother.
- Joined various clandestine leftist groups following the installation of a military government in 1964.
- Arrested in 1970 and tortured and imprisoned by the military regime until 1972.
- Completed a degree in economics upon release.
- Returned to politics in the late 1970s, taking part in the amnesty campaign for political prisoners and the founding of a center-left political party.
- Worked as a consultant to political leaders and served in various positions in the state of Rio Grande do Sul, including president of the Economy and Statistics Foundation and state secretary of mines, energy, and communication, during the 1980s and 1990s.
- Joined President Lula's transition team in 2002 and served as Brazil's minister of mines and energy from 2003-2005.
- Named Lula's chief of staff in 2005, and put in charge of strategic projects such as the government's housing program, investments in infrastructure through the Growth Acceleration Program, and coordination of the design of a new regulatory framework for developing Brazil's recently discovered offshore oil reserves.
- Resigned as chief of staff to run for president in 2010.
- Inaugurated to a four-year presidential term in January 2011.

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

Although Rousseff's electoral coalition enjoys significant majorities in Congress, it has presented her with a number of challenges. The 10 parties that backed her candidacy are ideologically diverse, and while some support the policies of the PT, others—including the large PMDB—have demonstrated more interest in the distribution of government resources through the federal budget and the control of ministries and state enterprises.²³ Almost immediately, some sectors of the coalition voiced discontent as a result of Rousseff's cabinet appointments and her attempt to slow the growth of government spending.²⁴ Rousseff's unwillingness to throw her full support behind officials accused of corruption has exacerbated these intra-coalition differences. Since taking office, six of her cabinet ministers—most of whom were holdovers from the Lula Administration—have been forced out by corruption allegations.²⁵ In protest of the Rousseff Administration's actions, some legislators have voted with the political opposition on key pieces of legislation, and one party has even left the coalition.²⁶ Rousseff's attempt to clean up government has won her considerable popular support. In January 2012, 59% of Brazilians approved of the Rousseff Administration, the highest approval rating for an administration after

²³ Marco Antonio Villa, "PMDB Será Pedra no Sapato da Presidente," *Folha de São Paulo*, November 20, 2010; Otávio Cabral, "A Digestão do Poder," *Veja*, July 29, 2009.

²⁴ Vera Rosa and Rafael Moraes Moura, "Ministério de Dilma Mantém Fatia de Poder do PT e Desagrada a Aliados," *Estado de São Paulo Digital*, December 22, 2010.

²⁵ "Rousseff Loses Six Ministers in Five Months," *Latin News Daily*, October 27, 2011.

²⁶ Juan Arias, "El Ala Izquierda del PT Critica la Política de Austeridad de Rousseff," *El País* (Argentina), March 1, 2011; "Brazil Coalition Cracks Over Corruption Crackdown," *Oxford Analytica*, August 3, 2011; "Brazil's Congress Calls 'Go-Slow' Strike," *Latin News Daily*, August 11, 2011.

one year in office since the return to democracy.²⁷ According to many analysts, however, Rousseff may have to limit the extent of her anti-corruption efforts to win the legislative support necessary to enact the rest of her policy agenda.²⁸

Economic Conditions

With a gross national income (GNI) of \$1.83 trillion,²⁹ Brazil is the largest economy in Latin America and the sixth largest in the world.³⁰ Over the past five years, the country has enjoyed relative macroeconomic stability and average annual growth of nearly 4.3%.³¹ This growth has been driven by a boom in international demand—particularly in Asia—for its commodity exports, and the increased purchasing power of Brazil’s fast-growing middle class, which has added some 40 million people since 2003 and now accounts for a majority of the population.³² In 2011, the value of Brazil’s exports reached some \$256 billion, or 10.1% of gross domestic product (GDP), with top exports including commodities such as iron ore, oil, soy, sugar, chicken, and beef, as well as manufactured goods such as automobiles and machinery. Brazil’s 2011 trade surplus amounted to \$29.8 billion (1.2% of GDP).³³ The country’s current economic strength is at least partially the result a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have also enabled Brazil to better absorb international shocks like the recent global financial crisis.³⁴ After contracting by 0.3% in 2009, the Brazilian economy quickly bounced back with 7.5% growth in 2010. Although the economy has since slowed, with estimated growth of 2.9% in 2011 and a forecast of 3.3% growth in 2012, Brazil has the resources necessary to weather another potential downturn in the global economy.³⁵

Background on Reform and Stabilization

Following the return to democracy in the late 1980s and early 1990s, Brazil struggled with persistently high inflation and slow growth. In order to address these issues, the Brazilian government launched the “*Real Plan*” in 1994. The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with inflation falling from 2,730% in 1993 to 17.8% in 1995.

²⁷ “Avaliação Dilma Rousseff – Janeiro de 2012,” *Datafolha*, January 20, 2012.

²⁸ See, for example, “É Dilma Quem tem que Assumir a Coordenação Política, Diz Lessa,” *Valor Online* (Brazil), June 13, 2011; Alexander Ragir, “Rousseff Corruption Crackdown Risks Brazil Inflation Fight as Allies Balk,” *Bloomberg*, July 26, 2011; and “Dilma Tries to Drain the Swamp,” *Economist*, August 20, 2011.

²⁹ World Bank, “World Development Indicators,” <http://data.worldbank.org/data-catalog/world-development-indicators>.

³⁰ “Brazilian Economy Overtakes UK’s, Says CEBR,” *BBC News*, December 26, 2011.

³¹ “Country Report: Brazil,” *Economist Intelligence Unit*, March 2012.

³² The Brazilian government breaks the population into five income classes: A, B, C, D, and E. Those in the “C” class, who earn between approximately \$770 and \$3,300 (R\$1,200-5,174) per month, now account for over half of the Brazilian population. Neri, June 2011, *op.cit.*

³³ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, January 2011.

³⁴ “Brazil Takes Off,” *Economist*, November 12, 2009.

³⁵ “Country Report: Brazil,” *Economist Intelligence Unit*, March 2012.

Fernando Henrique Cardoso, who had been in charge of the *Real Plan* as finance minister, took office as president in 1995 and continued the economic reform push by privatizing state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment.

Although Brazil enjoyed stronger growth rates for a few years following the *Real Plan*, macroeconomic stability remained elusive. In order to take advantage of the improved economic situation and high real interest rates, foreign investors began flooding Brazil with large capital inflows. The increase in foreign capital contributed to currency appreciation and the eventual overvaluation of the *real*. Following the 1997 East Asian and 1998 Russian financial crises, international investors began to worry about Brazil's overvalued exchange rate and substantial fiscal deficits. The Brazilian government's inability to pass legislation capable of addressing these issues sparked a massive capital flight. Brazil was forced to adopt a floating exchange rate, and the *real* lost 40% of its value.³⁶

In the aftermath of the 1998-1999 financial crisis, Brazil adopted the three main pillars of its current macroeconomic policy: a floating exchange rate, a primary budget surplus, and an inflation-targeting monetary policy. Although these policies were introduced toward the end of the Cardoso Administration, they were maintained and strengthened under President Lula and now have support across the political spectrum. Under the current policy mix, inflation has remained relatively low and economic growth has accelerated. Likewise, public debt has declined, with Brazil repaying its \$15.5 billion debt to the International Monetary Fund (IMF) ahead of schedule in 2005, and becoming a net IMF creditor in 2009.³⁷

Global Financial Crisis: Response and Recovery

In stark contrast to previous international shocks, the recent global economic downturn has had only a limited effect on Brazil. The country experienced a brief recession in 2009, causing an economic contraction of 0.3%, before rebounding quickly with growth of 7.5% in 2010.³⁸ Most analysts credit Brazil's strong macroeconomic framework and the Lula Administration's timely policy response for successfully mitigating the effects of the crisis.³⁹ As the fallout of the financial crisis spread around the world, the Brazilian government injected additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate. President Lula also acted to boost domestic consumption in hopes of partially offsetting declines in global demand. The government mandated above-inflation increases to the minimum wage, provided temporary tax reductions, increased investments in its signature infrastructure program, and maintained its spending on social programs like *Bolsa Familia*.⁴⁰

³⁶ Riordan Roett, "How Reform has Powered Brazil's Rise," *Current History*, February 2010; CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

³⁷ Antonio Rodriguez, "Brazil Switches Roles with Helping Hand for IMF," *Agence France Presse*, October 5, 2009.

³⁸ "Country Report: Brazil," *Economist Intelligence Unit*, March 2012.

³⁹ See, for example, "IMF Executive Board Concludes 2010 Article IV Consultation with Brazil," *International Monetary Fund*, August 5, 2010; and Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

⁴⁰ "Brazil Economy: Bottoming Out?" *Economist Intelligence Unit*, May 7, 2009; "Will the Economy Grow in 2009?" *Latin American Economy & Business*, February 2009; "Tax Relief for the Middle Classes," *Latin American Weekly Report*, December 18, 2008.

Although Brazil recovered quickly from the financial crisis, the lingering effects of the global downturn have presented challenges for the country's economy. Slow growth rates have kept interest rates low in Europe and the United States, which has encouraged investors looking for higher returns to flood Brazil and other developing nations with foreign capital. These inflows have contributed to considerable appreciation of the Brazilian *real*.⁴¹ While the steep increase in value has boosted domestic purchasing power, it has also put inflationary pressure on the economy and hurt the competitiveness of Brazilian exports.⁴² These challenges, in addition to the ongoing economic problems in Europe and elsewhere, have contributed to slowing growth in Brazil. The Brazilian government has responded by cutting interest rates and noting that it is prepared to enact tax cuts and other measures to support businesses and consumers should the global economic situation further deteriorate. Brazil's economy grew by an estimated 2.9% in 2011 and is forecast to grow 3.3% in 2012.⁴³

Potential Constraints on Long-term Growth

Brazil's current conditions and recent economic performance suggest the country will sustain solid growth rates in the near term; however, many analysts assert that several constraints on mid- and long-term growth remain.⁴⁴ These include a sizeable public debt burden and fast growing private debt burden, high taxes and interest rates, low investment and savings rates, rigid labor laws, and overburdened transportation and energy infrastructure. Gross public debt has generally declined in recent years, but remains over 53% of GDP.⁴⁵ At the same time, the Brazilian government has slowed the rate of debt reduction by reducing its primary fiscal surplus—the budget surplus before debt payments—to enable increased government spending.⁴⁶ According to some analysts, public expenditure is now growing faster than GDP and the quality of spending is declining. They assert that a greater percentage of public expenditure needs to be dedicated to long-term investments such as infrastructure, education, and research and development.⁴⁷

⁴¹ Ian Talley, "IMF Says Capital Controls Can Slow Investment Flows in India, Brazil," *Wall Street Journal*, January 6, 2011.

⁴² "Brazil: Reserve Requirements Will Not Weaken Real," *Oxford Analytica*, January 11, 2011; Matthew Bristow, "Brazil Central Bank Moves to Curb Short Dollar Bets and Rein in Real Rally," *Bloomberg*, July 10, 2011; "Brazil Taxes Derivatives to Brake Currency Rally," *Reuters*, July 27, 2011.

⁴³ "Brazil Has Bullets at the Ready," *Latin News Daily*, August 24, 2011; "Brazil: Prepare for Landing," *Latin American Regional Report: Brazil & Southern Cone*, November 2011; "Country Report: Brazil," *Economist Intelligence Unit*, March 2012.

⁴⁴ See, for example, "Prospects 2011: Brazil," *Oxford Analytica*, November 26, 2010; World Economic Forum, *The Global Competitiveness Report 2010-2011*, Geneva, 2010; National Confederation of Industry (CNI), *Industry and Brazil: An Agenda to Grow More and Better*, Brasilia, 2010; and "Brazil: Consumer Credit Boom Raises Debt Concerns," *Oxford Analytica*, February 10, 2011.

⁴⁵ "Country Report: Brazil," *Economist Intelligence Unit*, March 2012.

⁴⁶ Maria Luiza Rabello and Iuri Dantas, "IMF View of Brazil Finances is 'Stupid,' Mantega Says," *Business Week*, January 28, 2011; "Brazil – Mantega's Clever Accounting," *Latin News Daily*, January 25, 2011.

⁴⁷ Paulo Vieira da Cunha and Vinod Thomas, "The Brazilian Economy: The Choices for Dilma," Remarks at the Inter-American Dialogue, Washington, DC, November 10, 2010; Alexander Ragir, "Rousseff Crisis Spurred by Lula Debts as Brazil Boom Diminishes," *Bloomberg*, September 27, 2011.

Social Indicators

Despite its fast-growing economy and large resource base, Brazil has had problems solving deep-seated social problems. The country has one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. The wealthiest 10% of the population control about 45% of the country's wealth while the poorest 10% control just 1.1% of the wealth.⁴⁸ Like elsewhere in Latin America, Brazil's high inequality is partially a legacy of extreme land concentration among the country's elite. The Brazilian government has also acknowledged that there is a racial component to inequality. While over 50% of Brazilians identify themselves as black or mixed race, afro-Brazilians account for just 18% of the wealthiest section of society (the so-called "Class A") and over 76% of the poorest section of society (the so-called "Class E").⁴⁹ Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities.

The Brazilian government's efforts to reduce social disparities have recently begun to demonstrate results. As late as 2005, the Organization for Economic Cooperation and Development (OECD) asserted that Brazil had not achieved the same social indicators as countries with similar income levels despite having spent the same amount or more on social programs.⁵⁰ More recent evidence, however, indicates that Brazil has made substantial progress in the last few years as a result of the country's social policies and steady economic growth. Since 2003, the percentage of the population below the poverty line has fallen from 33.2% to 22.9%, and the gap between the wealthiest 10% and poorest 10% has fallen from 23 times to 18 times.⁵¹ Likewise, infant mortality has fallen to 17 deaths per 1,000 live births and the proportion of underweight children has fallen to 2.2%.⁵² Transfer programs like *Bolsa Familia*, which provides monthly stipends to some 13 million poor families (52 million people)⁵³ in exchange for ensuring that their children attend school and receive proper medical care, have been credited for much of this progress. Although such efforts likely will continue to play a major role in Brazilian social policy, many observers assert that improving the quality of social services—especially in education and healthcare—is crucial for reducing social disparities and fostering development in the long run.⁵⁴

In June 2011, President Rousseff launched an anti-poverty program known as *Brasil Sem Miséria* (Brazil Without Poverty). The program is designed to eradicate extreme poverty, which currently afflicts 16 million Brazilians (8.5% of the population), by 2014. It will increase transfer payments provided through existing programs such as *Bolsa Familia*; increase access to public services

⁴⁸ "Brazil's Income Gap Continues Wide in Brazil," *Associated Press*, November 16, 2011.

⁴⁹ Tom Phillips, "Brazil Census Shows African-Brazilians in the Majority for the First Time," *Guardian*, November 17, 2011.

⁵⁰ Organization for Economic Cooperation and Development, *Economic Survey of Brazil 2005*, March 2005.

⁵¹ "Brazil: Poverty Falls, but Regional Inequities Remain," *Oxford Analytica*, June 21, 2010.

⁵² World Bank, "World Development Indicators," <http://data.worldbank.org/data-catalog/world-development-indicators>.

⁵³ Some 4 million poor families exited the Bolsa Familia program between 2008 and 2010. 80% of those who left did so as a result of securing higher incomes and living standards and effectively graduating from the program. "Brazil Anti-Poverty Plan Fails to Tackle Causes," *Oxford Analytica*, June 15, 2011.

⁵⁴ See, for example, "How to get Children out of Jobs and into School: The Limits of Brazil's Much Admired and Emulated Anti-Poverty Programme," *Economist*, July 29, 2010; Alexei Barrionuevo, "Educational Gaps Limit Brazil's Reach," *New York Times*, September 4, 2010; and "Resuscitating Brazil's Health," *Latin News Daily*, November 8, 2010.

such as education, electricity, health care, housing, and sanitation; and increase economic opportunities in urban and rural areas by providing access to microcredit, skills training, technical assistance, and new markets.⁵⁵

Foreign Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries in economic cooperation and collective security efforts, and an emerging world power. Brazilian foreign policy has traditionally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.⁵⁶ Adherence to these principles has enabled Brazil to maintain peaceful relations with all 10 of its neighbors⁵⁷ and to play a larger role in global affairs than its economic and geopolitical power would otherwise allow. Building on its traditional principles, Brazilian foreign policy under the PT administrations of Presidents Lula and Rousseff has emphasized three areas of action: (1) reinforcing relations with traditional partners such as its South American neighbors, the United States, and Europe; (2) diversifying relations by forging stronger economic and political ties with other nations of the developing world; and (3) supporting multilateralism by pushing for the democratization of global governance.⁵⁸

Regional Policy

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

South American Integration

In 1991, Brazil joined with Argentina, Uruguay, and Paraguay to establish the Common Market of the South (Mercosur), an organization intended to promote economic integration and political

⁵⁵ Governo Federal do Brasil, Ministério do Desenvolvimento Social e Combate à Fome, *Plano Brasil Sem Miséria*, http://www.brasilsemmiseria.gov.br/wp-content/themes/bsm2nd/caderno_brasil_sem_miseria.pdf.

⁵⁶ Georges D. Landau, "The Decision Making Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

⁵⁷ In addition to bordering nine of the eleven other independent countries in South America, Brazil borders French Guiana—a territory of France (see **Figure 1**, for a map of Brazil and its neighbors).

⁵⁸ "Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty," Ministério das Relações Exteriores, January 2, 2011; "Brazil has Become the 'Unavoidable Partner' in the Global Decision-Making Process," *MercoPress*, December 14, 2010.

cooperation among the countries.⁵⁹ Although the member states have been able to achieve consensus on a number of political issues, progress on the economic front has been slow. The Mercosur pact calls for an incremental path to full economic integration, yet only a limited customs union has been achieved in its 20-year existence. The member states finally agreed on long-stalled issues such as a common customs code and the elimination of double tariffs on non-Mercosur goods transported between countries in August 2010;⁶⁰ however, a number of other issues like the dispute resolution process and trade asymmetries still need to be addressed.⁶¹ Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela have all become associate members⁶² of Mercosur, and Brazil has advocated full membership for each country.⁶³

The ongoing problems with Mercosur have not prevented Brazil from pushing for broader regional integration. In 2008, all 12 independent countries of South America joined together to form the Union of South American Nations (Unasur).⁶⁴ Primarily a political body, Unasur has served as a forum for dispute resolution and the formation of common policy positions. With Brazil playing an influential role, the organization helped resolve political conflicts in Bolivia in 2008 and Ecuador in September 2010, and took a strong stance against the ouster of the president of Honduras in 2009.⁶⁵ Brazilian diplomacy also successfully convinced each of the Unasur member states to join the associated South American Defense Council, designed to boost regional cooperation on security policies.⁶⁶ Within the council, South American countries have discussed defense spending and reviewed defense agreements with extra-regional powers.⁶⁷ Notwithstanding its many successes, Unasur's capacities are limited. Member states are reluctant to cede authority to the organization, it has largely been unable to mediate disputes when there is no regional consensus, and it is heavily reliant on presidential diplomacy since it lacks strong formal institutions.⁶⁸

By promoting integration through organizations like Mercosur and Unasur, Brazil has been able to solidify its role as a regional power. These organizations provide forums in which Brazil can exercise leadership and build broad support for its positions on regional and global issues. The successes of Mercosur and Unasur have instilled a confidence in South American nations that the region can resolve internal problems without having to turn to extra-regional powers, such as the

⁵⁹ For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

⁶⁰ "Mercosur Wraps Up Successful Summit," *EFE News Service*, August 3, 2010; "Las Reglas Comerciales Comunes Tendrán que ser Ratificadas por el Congreso de Cada Socio; Aprobaron el Código que Regirá el Comercio Dentro del Mercosur," *Clarín*, August 4, 2010.

⁶¹ "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

⁶² Associate members have no voting rights and need not observe Mercosur's common external tariff. Venezuela will be a full member once its accession is ratified by the Paraguayan legislature.

⁶³ Juliana Rocha, "Colômbia Negocia Sua Adesão ao Mercosul," *Folha de São Paulo*, January 20, 2011; "Lula Defiende Adhesión de Bolivia, Chile, Colombia, Ecuador y Perú a Mercosur," *EFE News Service*, December 20, 2010.

⁶⁴ The treaty establishing Unasur entered into force on November 30, 2010, when Uruguay became the ninth country to approve its ratification. "Uruguay Ratificó Tratado de la Unasur, que Completa Nueve Adhesiones," *Agence France Presse*, November 30, 2010.

⁶⁵ "Unasur Assigns Itself Some Authority," *Latin News Daily*, November 26, 2010.

⁶⁶ "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

⁶⁷ "Brasil Propondrá Creación de un Consejo de Paz y Seguridad de la Unasur," *EFE News Service*, January 13, 2010.

⁶⁸ Andrés Serbin and Peter Hakim, "The Union of South American Nations (UNASUR)," Remarks at the Inter-American Dialogue, Washington, DC, November 23, 2009; "Latin America: Regional Tensions Challenge UNASUR," *Oxford Analytica*, August 21, 2009.

United States. Some South American countries, however, are uncomfortable with Brazil's growing economic and political influence in the region. This has already generated backlash against Brazilian companies in several cases, and led to tensions between Brazil and some of its neighbors. Anxieties about Brazil's intentions and role are likely to grow as Brazil continues to pursue its interests in the region.⁶⁹

Moreover, it is unclear if Brazil is willing to accept the costs and responsibilities associated with regional leadership. Although the country has shouldered the burden for multilateral integration efforts, such as providing 70% of the annual budget for Mercosur's Structural Convergence and Institutional Strengthening Fund,⁷⁰ it has been less willing to make unilateral concessions to foster development and good will among its neighbors. For example, when Lula agreed to pay Paraguay a higher price for energy generated by a jointly owned hydroelectric plant in July 2009, he was heavily criticized by some within Brazil and the Brazilian Congress blocked the agreement until May 2011.⁷¹ Given that the country is still resolving its own economic and social problems, it may be difficult to convince the Brazilian population that the somewhat intangible benefits of regional leadership outweigh the very visible costs.

Expansion of Influence into the Caribbean and Central America

In addition to consolidating its power within South America, Brazil has sought to expand its influence in the broader region by increasing its engagement in the Caribbean and Central America. Brazil has taken on considerable responsibilities in Haiti, where it has commanded the U.N. Stabilization Mission (MINUSTAH) since 2004. Some 10,000 Brazilian military personnel have rotated through the country since the start of MINUSTAH, and with nearly 2,200 police and troops currently on the ground, Brazil is the largest peacekeeping contingent in Haiti.⁷² Brazil is also increasingly providing Caribbean and Central American nations with humanitarian and technical assistance. Between 2005 and 2009, Cuba, Haiti, and Honduras were three of the top four recipients of Brazilian humanitarian assistance, receiving over \$50 million (R\$79 million) combined.⁷³ Technical assistance has taken many forms, such as so-called "ethanol diplomacy," in which Brazil has signed bio-fuels partnership agreements with countries that would otherwise be dependent on expensive oil imports.⁷⁴ Moreover, Brazil has become a regional observer of the Central American Integration System (SICA); promoted a trade agreement between SICA and Mercosur; and supported the creation of a regional group known as the Community of Latin American and Caribbean States, which includes all of the countries of the hemisphere except Canada and the United States. Although Brazil has become much more visible as a result of these

⁶⁹ Simon Romero, "Brazil's Long Shadow Vexes Some Neighbors," *New York Times*, November 4, 2011.

⁷⁰ "Brazil Invested 1.7bn Dollars in International Cooperation 2005-2009," *BBC Monitoring*, January 14, 2011.

⁷¹ "Lula Criticised for 'Partisan' Foreign Policy," *Latin American Weekly Report*, January 22, 2009; Pedro Servin, "Paraguay-Brazil Energy Treaty Going Nowhere Fast," *Associated Press*, December 16, 2009; Juliette Kerr, "Brazil – Paraguay: Brazilian Congress Concludes Voting on Accord Altering Payment Terms for Itaipu Hydroelectric Plant," *IHS Global Insight*, May 12, 2011.

⁷² "Brasil Pide Compromiso Renovado de Comunidad Internacional con Haití," *Agence France Presse*, January 12, 2011; Wilson Tosta and Glauber Goncalves, "Ex-Comandante Defende que Exército Continue no Haiti," *Estado de São Paulo*, November 5, 2010; United Nations, "UN Mission's Summary Detailed by Country," January 31, 2012.

⁷³ Instituto de Pesquisa Econômica Aplicada (IPEA), *Cooperação Brasileira Para o Desenvolvimento Internacional: 2005-2009*, Brasília, December 2010.

⁷⁴ "Chávez, Lula Promote Competing Visions," *Miami Herald*, August 10, 2007.

efforts, most analysts assert that country's influence in Central America and the Caribbean remains limited.⁷⁵

Emerging Global Role

As Brazil's economy has grown to be the sixth largest in the world, the country has utilized its growing economic clout to assert Brazilian influence on a range of global matters. On global trade and financial issues, where Brazil's economic weight ensures the country a principal role in policy discussions, Brazil has sought to coordinate with, and represent, other developing nations. This has coincided with a broader focus on "South-South" cooperation, in which Brazil has expanded diplomatic and commercial ties with countries throughout the developing world. With its increasing international prominence, Brazil has pushed for a democratization of global governance institutions and a greater role for emerging powers in resolving issues of geopolitical importance. Although few analysts deny that Brazil's international stature has risen significantly over the past decade, many believe that the country must overcome considerable challenges to be considered a world power.⁷⁶ These include undertaking reforms to maintain its current economic trajectory, addressing long-standing domestic security challenges, and modernizing and expanding its military capacity.

South-South Ties

Brazilian foreign policy under the PT administrations of Presidents Lula and Rouseff has prioritized relations with nontraditional partners in the developing world, or "South-South" ties. During the Lula Administration, the country significantly expanded its diplomatic presence in the developing world, opening 37 new embassies and 25 new consulates.⁷⁷ Brazil also increased its international development assistance, which totaled \$362 million (0.02% of GDP) in 2009. The majority of Brazil's aid has gone to Latin America, the Caribbean, and Africa—with a special emphasis on fellow Portuguese-speaking nations. It includes humanitarian assistance and technical cooperation focused in sectors where Brazil has been particularly effective domestically, such as poverty reduction, tropical agriculture and biofuels production, and the prevention and treatment of HIV/AIDS and tropical diseases.⁷⁸ These diplomatic and development ties have coincided with increased commercial relations. While Brazil's total world trade grew by nearly 350% between 2002 and 2011, trade with Latin America and the Caribbean grew by 380%; trade with Africa grew by nearly 450%; trade with India grew by over 650%; and trade with China grew by nearly 1,800%. China is now Brazil's top trading partner, with total trade valued at \$77.1 billion.⁷⁹

⁷⁵ See, for example, Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010; "Brazil is Challenging Mexico and U.S. Domination of Isthmus," *Latin America Data Base, NotiSur*, June 11, 2009; and Andres Oppenheimer, "Brazil Stretching Clout to Central America," *Miami Herald*, June 7, 2009.

⁷⁶ See, for example, Julia Sweig, "A New Global Player," *Foreign Affairs*, November/December 2010; Hal Brands, *Dilemmas of Brazilian Grand Strategy*, U.S. Army War College, Strategic Studies Institute, Carlisle, PA, August 2010; Peter Hakim, "Rising Brazil: The Choices of a New Global Power," *Política Externa*, July 1, 2010; and "Geopolitical Diary: A Boost for Brazil's Military," *STRATFOR*, December 24, 2008.

⁷⁷ Larry Luxner, "Basking in Global Clout, Brazil Ponders Life After Lula," *Washington Diplomat*, September 2010.

⁷⁸ IPEA, December 2010, op.cit.

⁷⁹ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, March 2012.

Brazil's focus on forging South-South ties under the PT has been criticized by a number of analysts within and outside the country. Former Brazilian Ambassador to the United States Roberto Abdenur claimed that the South-South approach of the Brazilian Foreign Ministry indoctrinates Brazilian diplomats with "anti-imperialist" and "anti-American" attitudes. He also criticized Lula for embracing autocratic leaders and failing to speak up for democracy and human rights.⁸⁰ Another former Ambassador to Washington, Rubens Barbosa, has argued that while the PT's foreign policy has increased Brazil's international influence, it has not been very cost-effective in delivering concrete results. He also maintains that Brazil should devote the same amount of attention to relations with developed nations as it has devoted to South-South ties.⁸¹ Officials from the current and previous Brazilian administrations assert that increased South-South ties have not come at the expense of relations with the developed world. Moreover, they assert that while Brazil supports the spread of democracy and human rights, it believes singling out countries with confrontational declarations and policies is counterproductive.⁸²

Democratization of Global Governance

Building off its traditional support for multilateralism and its more recent focus on South-South ties, Brazil has sought to reinvigorate multilateral institutions by making them more representative of the current geopolitical situation. Brazilian officials assert that the world is becoming multipolar, and global governance institutions—including the International Monetary Fund (IMF), the Group of Eight (G8), and the U.N. Security Council—lack legitimacy and efficacy since they are no longer representative of the global balance of power.⁸³ In order to address these issues, Brazil has joined with other emerging and developing nations to push for reform. These coalitions include more formal organizations, like the Brazil-Russia-India-China-South Africa (BRICS) group and the India-Brazil-South Africa (IBSA) forum, as well as ad hoc arrangements.

Brazil's efforts have produced mixed results. On the one hand, the country has been successful in securing agreements to redistribute voting power within the IMF and replace the G8 with the more representative G20 as the premier forum for international economic coordination. Likewise, emerging nation coalitions have succeeded in blocking U.S. and European Union attempts to conclude international agreements, such as the Doha trade negotiations and the Copenhagen climate negotiations, without addressing developing nation demands.⁸⁴ Efforts to enlarge and reform the U.N. Security Council, however, have been unsuccessful thus far.⁸⁵ Some observers have expressed concerns that, by pushing for greater decision-making authority without being

⁸⁰ Diego Schelp, "Diplomacia de Palanque," *Veja*, September 8, 2010; Otávio Cabral, "Nem na Ditadura," *Veja*, February 7, 2007.

⁸¹ Rubens Barbosa, "Sobre uma Nova Política," *O Globo* (Brazil), October 26, 2010.

⁸² "Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty," Ministério das Relações Exteriores, January 2, 2011; Susan Glasser, "The Soft-Power Power," *Foreign Policy*, December 2010.

⁸³ Meeting with official from Brazil's Ministry of External Relations, Financial Affairs Office, December 8, 2010; Celso Amorim, "Governance Must Reflect Global Reality," *Financial Times*, November 15, 2010.

⁸⁴ Celso Amorim, "The New Geopolitics: Emerging Powers and the Challenges of a Multipolar World," Remarks at the Carnegie Endowment for International Peace, Washington, DC, November 30, 2010; "Voting Power Shift Just Start of IMF Reform, Says Chinese Official," *BBC Monitoring*, November 5, 2010.

⁸⁵ William Maclean, "Brazil Says US Spat Signals Tough Security Reform," *Reuters*, September 11, 2010.

prepared for the corresponding responsibilities of leadership, the actions of Brazil and other emerging powers could create instability within the world system.⁸⁶

In addition to seeking greater influence within global governance institutions, Brazil has pushed for a greater role in resolving issues of geopolitical importance. During the Lula Administration, Brazil was somewhat critical of the U.S. role in the Middle East, arguing that the U.N. should oversee negotiations between Israel and the Palestinians and emerging powers should be more involved.⁸⁷ Brazil hosted the presidents of Israel and the Palestinian National Authority, and suggested that it might be able to act as a mediator in the conflict. Brazil also recognized Palestine as an independent state within its 1967 borders, setting off a wave of similar recognitions throughout South America.⁸⁸ At the September 2011 U.N. General Assembly, President Rousseff called for Palestine's full membership in the United Nations.⁸⁹

Additionally, Brazil has been involved in discussions regarding Iran's nuclear program. In May 2010, Lula worked with his Turkish counterpart to negotiate a deal with Iran under which Iran's enriched uranium would be reprocessed outside the country. The so-called "Tehran Declaration" was similar to a deal put forward in October 2009 by the United States, France, and Russia that had been supported by the International Atomic Energy Agency (IAEA). The Brazilians saw the agreement as a confidence-building measure to bring Iran back to the negotiating table; however, the Obama Administration and European nations viewed the agreement as a delaying tactic, noted that the October 2009 deal was no longer sufficient since Iran had continued to enrich uranium, and pushed ahead with sanctions.⁹⁰ Brazil voted against U.N. Security Resolution 1929 (June 2010), saying the council had "lost a historic opportunity to peacefully negotiate the Iranian nuclear program," but agreed to abide by the sanctions.⁹¹ While some analysts dismissed Brazil's efforts as naive and unhelpful,⁹² others argued that the negotiation attempt demonstrated Brazil's growing prominence and the potential for new states to play important roles in resolving issues of geopolitical importance.⁹³

⁸⁶ Jorge G. Castañeda, "Not Ready for Prime Time," *Foreign Affairs*, vol. 89, no. 5 (September/October 2010); Andrew F. Hart and Bruce D. Jones, "How Do Rising Powers Rise?," *Survival*, vol. 52, no. 6 (November 29, 2010).

⁸⁷ Iuri Dantas and Fabiola Moura, "Lula Says U.S. Shouldn't Broker Middle East Talks," *Bloomberg*, November 20, 2009.

⁸⁸ "Brazilian Minister on Middle East Role," *BBC Monitoring*, January 4, 2010; Sean Goforth, "Brazil's Middle East Roadmap," *World Politics Review*, January 20, 2011.

⁸⁹ "Statement by H.E. Dilma Rousseff, President of the Federative Republic of Brazil, at the Opening of the General Debate of the 66th Session of the United Nations General Assembly," September 21, 2011, http://gadebate.un.org/sites/default/files/gastatements/66/BR_en_0.pdf.

⁹⁰ Trita Parsi, "The Turkey-Brazil-Iran Deal: Can Washington Take 'Yes' for an Answer?" *Foreign Policy*, May 17, 2010; "Unexpected US Opposition Overshadows Lula's Successful Iran Nuclear Deal," *Latin American Security & Strategic Review*, May 2010.

⁹¹ "Brazil's Lula Says UN Sanctions a Mistake," *Latin News Daily*, June 10, 2010; "Brazil Will Back Iran Sanctions," *Al Jazeera*, August 11, 2010.

⁹² See, for example, Duda Teixeira, "Esperteza Atômica," *Veja*, May 26, 2010; and "An Iranian Banana Skin," *Economist*, June 17, 2010.

⁹³ See, for example, Erich Follath and Jens Glüsing, "Brazil's Lula Vaults into Big League of World Diplomacy," *Spiegel Online*, May 25, 2010; Carlo Patti, "Brazil and the Nuclear Issues in the Years of the Luiz Inácio Lula da Silva Government (2003-2010)," *Revista Brasileira de Política Internacional*, vol. 53, no. 2 (2010).

U.S.-Brazil Relations: Selected Issues of Congressional Interest

Relations between Brazil and the United States are generally friendly. According to U.S. officials, “as two of the world’s largest economies and democracies, with shared values and increasingly converging goals, Brazil and the United States are natural partners in a rapidly changing world.”⁹⁴ The Obama Administration’s National Security Strategy states that the United States “welcome[s] Brazil’s leadership and seek[s] to move beyond dated North-South divisions to pursue progress on bilateral, hemispheric, and global issues.”⁹⁵ The United States and Brazil have established over 20 dialogues to enhance coordination and cooperation on a wide variety of issues.⁹⁶ Among other topics, the United States and Brazil engage on security, energy, trade, human rights, and the environment.

Although Brazil and the United States share a number of common goals, the countries’ occasionally divergent national interests and independent foreign policies have led to disagreements on trade and political matters. Some long-running disputes include the stalled Doha trade negotiations and Brazilian opposition to U.S. cotton subsidies. Additional differences have emerged in recent years, many of which have centered around the countries’ approaches to foreign policy. In 2010 and 2011, for example, Brazil used its temporary seat on the U.N. Security Council to advocate engagement with internationally isolated regimes like Iran, Libya, and Syria, rather than sanctions, which it views as a prelude to armed conflict. Some analysts and policymakers assert that Brazil’s increasing global prominence and involvement on an array of issues will inevitably lead to disputes with the United States and that managing those disputes in a transparent and respectful manner will be key to maintaining friendly relations moving forward.⁹⁷

As a middle-income country, Brazil does not receive large amounts of U.S. foreign assistance. Brazil received \$25.1 million in U.S. aid in FY2010, \$23.3 million in FY2011, and is scheduled to receive an estimated \$17.2 million in FY2012. The Obama Administration has requested just \$6.1 million in foreign assistance for Brazil in FY2013. U.S. assistance priorities in Brazil include supporting environmental programs and strengthening local capacity to address threats to the Amazon, promoting renewable energy and energy efficiency to mitigate climate change, strengthening the professionalism and peacekeeping capabilities of the Brazilian military, and reducing the transmission of communicable diseases.⁹⁸ In June 2011, legislation (H.R. 2246, T. Ryan) was introduced that would suspend foreign assistance to Brazil until the country amends its constitution to allow for the extradition of its citizens.

⁹⁴ William J. Burns, Deputy Secretary of State, “Building a Deeper Partnership with Brazil,” Remarks in Rio de Janeiro, Brazil, March 1, 2012.

⁹⁵ White House, *National Security Strategy*, May 2010, p. 44.

⁹⁶ “Interview with Wendy Sherman, Undersecretary for Political Affairs of the United States,” *Folha de São Paulo*, February 6, 2012.

⁹⁷ See, for example, Peter Hakim, “US-Brazil Relations: Expect More Conflict,” *Infolatam*, October 21, 2010; U.S. Ambassador Thomas Shannon, “Prospects for U.S.-Brazil Bilateral Relations,” Remarks at Brazil-U.S. Business Council Annual Plenary Meeting, December 7, 2010; and William J. Burns, Deputy Secretary of State, “Building a Deeper Partnership with Brazil,” Remarks in Rio de Janeiro, Brazil, March 1, 2012.

⁹⁸ U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011; and *Executive Budget Summary, Function 150 & Other International Programs, Fiscal Year 2013*, February 13, 2012.

Security Cooperation

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

Counternarcotics

While Brazil is not a major drug-producing country, it is the largest drug-consuming country in South America and serves as a transit country for illicit drugs from neighboring Andean countries destined primarily for Europe. Large and organized networks of violent criminal gangs such as the First Capital Command (*Primeiro Comando da Capital*, PCC) and the Red Command (*Comando Vermelho*, CV) control drug distribution in Brazilian cities and have a growing presence in neighboring countries, such as the marijuana-producing regions along the Paraguayan-Brazilian border. The gangs, which use drug proceeds to purchase weapons and tighten their control over urban areas, have also taken on greater roles in weapons smuggling.⁹⁹

Brazil has taken several steps to improve its counternarcotics capabilities. 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 increased its border presence, signing agreements with its neighbors to target cross-border traffic in drugs, arms, and people.¹⁰⁰ In 2011, Brazil began deploying unmanned aerial vehicles (UAVs) to monitor illicit activity along its borders and in the remote Amazon region.¹⁰¹ According to the U.S. Department of State, Brazil's federal police seized 22.2 metric tons of cocaine and crack, 138.3 metric tons of marijuana, and 33,542 stamps of LSD (lysergic acid diethylamide) in 2010.¹⁰²

The United States and Brazil cooperate on counternarcotics issues in a number of ways. U.S. counternarcotics assistance provides training for Brazilian law enforcement, assists interdiction programs at Brazil's international airports, supports drug prevention programs, and is designed to improve Brazil's capacity to dismantle criminal organizations. Brazil received \$1 million in U.S. counternarcotics assistance in FY2010, \$1 million in FY2011, and is scheduled to receive an estimated \$3 million in FY2012. Under the Obama Administration's request for FY2013, Brazil would receive \$2 million in counternarcotics assistance.¹⁰³

Brazil has also served as a bridge between the United States and Bolivia, which expelled the Drug Enforcement Administration (DEA) from its territory in 2008 as a result of alleged interference in the country's internal affairs. Under a trilateral anti-drug cooperation agreement signed in January 2012, the United States and Brazil will provide assistance to Bolivia in the monitoring and

⁹⁹ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2011 International Narcotics Control Strategy Report*, March 3, 2011; "Renewed Awareness of Brazilian Gang Threat," *Latin News Daily*, May 18, 2011.

¹⁰⁰ "Brazil-Region: Flying Start for the New 'Border Strategy,'" *Latin American Security & Strategic Review*, July 2011.

¹⁰¹ "Hermes 450: O Vigilante Das Fronteiras Brasileiras," *Terra* (Brazil), August 25, 2011.

¹⁰² U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2011 International Narcotics Control Strategy Report*, March 3, 2011.

¹⁰³ *Congressional Budget Justification*, April 2011; and *Executive Budget Summary*, February 2012, op.cit.

eradication of coca crops. According to the agreement, the United States will provide monitoring equipment, Brazil will be responsible for obtaining and interpreting satellite images, and Bolivia will conduct any necessary field work.¹⁰⁴

Counterterrorism and the Tri-Border Area¹⁰⁵

The Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay has long been used for arms smuggling, money laundering, and other illicit purposes. According to the State Department's *Country Reports on Terrorism*, there are no known operational cells of al Qaeda or Hezbollah-related groups in the hemisphere; however, the United States remains concerned that the proceeds from legal and illegal goods flowing through the TBA could potentially be diverted to support terrorist groups.¹⁰⁶ The United States joined with the countries of the TBA in the "3+1 Group on Tri-Border Area Security" in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

In December 2010, the U.S. Treasury Department sanctioned Hezbollah's chief representative in South America, Bilal Mohsen Wehbe, for transferring funds collected in Brazil to Hezbollah in Lebanon. According to the Treasury Department, Wehbe and an associate raised more than \$500,000 from Lebanese businessmen in the TBA following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly has overseen Hezbollah's counterintelligence activity in the TBA and has worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.¹⁰⁷

Beyond efforts in the TBA, the United States has worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos, and in 2010 gave initial approval to an Open Skies agreement that would safeguard aviation security.¹⁰⁸ The State Department's *Country Reports on Terrorism* states "the Brazilian government cooperated in countering terrorism-related activities, including investigating potential terrorism financing, document forgery networks, and other illicit activity." Brazil has yet to adopt legislation, however, to make terrorism and terrorism financing autonomous offenses. Like many other Latin American nations, Brazil has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as terrorism by repressive military regimes in the past.¹⁰⁹ Nevertheless, some Brazilian officials continue to push for antiterrorism legislation, asserting that the country will face new threats as a result of hosting the 2014 World Cup and the 2016 Olympics.¹¹⁰

¹⁰⁴ "Signing of Trilateral Agreement on the Integrated Monitoring System for Surplus Coca Cultivation Reduction Pilot Project," Joint Communiqué, January 20, 2012.

¹⁰⁵ For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

¹⁰⁶ U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2010*, August 18, 2011.

¹⁰⁷ U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," Press Release, December 9, 2010.

¹⁰⁸ U.S. Department of State, Office of the Spokesman, "United States and Brazil Agree on Open Skies," December 6, 2010.

¹⁰⁹ "Anti-Terrorism Law Project Scrapped," *Latin American Security & Strategic Review*, January 2008; Juliana Barbassa, "Brazil Denies Terrorists Operate Within Borders," *Associated Press*, September 3, 2011.

¹¹⁰ Guila Flint, "Jobim Alerta para Ameaça de Atentados e Diz que País Deve se Preparar para Problemas Durante (continued...)"

Defense

According to the U.S. Department of Defense, cooperation with Brazil's Ministry of Defense and the Brazilian military is closer today than it has been at any point in over 30 years. The U.S. and Brazilian militaries have worked together closely in Haiti, where Brazil commands the U.N. Stabilization Mission. Joint efforts in the aftermath of Haiti's January 2010 earthquake were the largest combined operations of U.S. and Brazilian military forces since World War II. In April 2010, the United States and Brazil signed a Defense Cooperation Agreement designed to promote cooperation in areas such as research and development, technology security, and acquisition of defense products and services. This was followed by a General Security of Military Information Agreement, signed in November 2010, which will facilitate the sharing of classified defense and military information. Additional areas of defense cooperation include information exchanges, combined military training, and joint military exercises.¹¹¹

Two pending defense procurement deals could impact future military ties between the United States and Brazil. The Brazilian air force intends to purchase 36 new fighter jets, and the Boeing F/A-18 Super Hornet is one of three finalists along with Saab JAS-39 Gripen of Sweden and the Dassault Rafale of France. Brazil's National Defense Strategy places significant emphasis on building the country's domestic defense industry, and technology transfer is reportedly a top consideration in the fighter deal. According to U.S. officials, the technology transfer package the United States has offered is unprecedented in the U.S.-Brazil relationship and is the same type of package that the United States provides its closest partners in the North Atlantic Treaty Organization (NATO).¹¹² Nevertheless, Brazilian officials remain wary of relying on U.S. hardware as a result of past experiences¹¹³ in which the U.S. government blocked sales of Brazilian arms containing U.S. technology.¹¹⁴ A final decision has been delayed for several years but reportedly may be finalized in 2012.¹¹⁵

The U.S. Air Force is currently considering purchasing 20 A-29 Super Tucano light attack aircraft, produced by Brazil's Embraer in partnership with U.S.-based Sierra Nevada, to be provided to the Afghan military for counterinsurgency and training purposes. The Air Force awarded the \$355 million contract to Embraer in late December 2011, but the procurement process was challenged by U.S.-based Hawker Beechcraft. After temporarily suspending the contract in January 2012, the Air Force cancelled the order in late February 2012 as a result of being unsatisfied with the documentation supporting the decision to award the contract to Embraer. Brazilian officials expressed displeasure with the sudden cancellation, and asserted that the decision would not be "conducive to strengthening relations between the two countries on

(...continued)

Copa e Olimpíadas," *O Globo* (Brazil), January 26, 2010; "High Risk of Terror Attacks During 2014 World Cup: Police," *Agence France Presse*, November 17, 2011.

¹¹¹ U.S. Department of Defense, Office of the Secretary of Defense, "Fact Sheet: U.S.-Brazil Defense Cooperation," March 14, 2011.

¹¹² Jeb Blount and Guillermo Parra-Bernal, "US Jet Contract Decision 'Surprised Brazil Gov't,'" *Reuters*, March 1, 2012.

¹¹³ In 2006, for example, the United States prevented Brazil from selling 25 Super Tucano light attack planes to Venezuela. "US Move Against Venezuelan Arms Purchases Elicits New Challenges of its Assumptions," *Latin American Security & Strategic Review*, January 2006.

¹¹⁴ "No Brazil Fighter Jet Decision Before Lula Leaves," *Agence France Presse*, December 7, 2010.

¹¹⁵ "Brazil May Reconsider Buying Jets in 2012-Official," *Reuters*, September 21, 2011.

defense affairs.” U.S. officials maintain that the United States remains interested in the Super Tucano and will consider the aircraft in a new bidding process.¹¹⁶

Energy Cooperation

In the recent years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through increased domestic production and the development of alternative energy resources. In addition to being the world’s second-largest producer of ethanol, Brazil currently generates over 75% of its electricity through hydropower.¹¹⁷ At the same time, Brazil has attained the ability to produce substantial amounts of enriched uranium as part of its civilian nuclear energy program. More recently, Brazil has discovered what may be the world’s largest oil field find in 25 years.¹¹⁸ The new reserves have the potential to turn the country into a major oil and gas producer and an important source of energy for the United States. To facilitate greater cooperation in the development of safe, secure, and affordable energy, President Obama and President Rousseff launched a Strategic Energy Dialogue in March 2011.

Ethanol and Other Biofuels¹¹⁹

Brazil stands out as an example of a country that has become a net exporter of energy, partially by increasing its use and production of ethanol. In response to sharp increases in oil prices, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol in 1975. Brazil now produces some 27.8 billion liters (7.3 billion gallons) of ethanol annually. About 17% of the ethanol produced in Brazil is exported, and the remainder is consumed domestically.¹²⁰ Within Brazil, pure ethanol is available at nearly every fueling station and gasoline is required to include a 20% ethanol blend. About 90% of new cars sold in Brazil each year are fitted with “flex-fuel” engines capable of running on fuel blends ranging from pure ethanol to pure gasoline. As a result, ethanol now accounts for over half of all fuel pumped in Brazil.¹²¹

On March 9, 2007, the United States and Brazil, the world’s two largest ethanol-producing countries, signed a Memorandum of Understanding to promote greater cooperation on ethanol and biofuels in the Western Hemisphere. The agreement involves (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic

¹¹⁶ Joe Leahy, “Brazil Warns US Over Cancelled Aircraft Deal,” *Financial Times*, March 2, 2012.

¹¹⁷ “Brazil: Electricity Faces Distribution Difficulties,” *Oxford Analytica*, March 24, 2011.

¹¹⁸ “Brazil’s Now a Hot Commodity,” *Los Angeles Times*, January 3, 2008.

¹¹⁹ For more information, see CRS Report R41282, *Agriculture-Based Biofuels: Overview and Emerging Issues*, by Randy Schnepf.

¹²⁰ Brazilian Sugarcane Industry Association (UNICA), “Quotes & Stats,” <http://english.unica.com.br/dadosCotacao/estatistica/>.

¹²¹ Chris Kraul, “Brazil Raises Cane Over U.S. Ethanol Barriers; Proponents Say Sugar-Based Fuel is a Better Choice than Corn,” *Los Angeles Times*, November 4, 2009; “Brazil: Long-term Ethanol Outlook Remains Bright,” *Oxford Analytica*, October 6, 2009; Leonardo Goy, “Brazil to Cut Ethanol Blend in Gasoline from Oct. 1,” *Reuters*, August 30 2011.

biofuels industries in third countries; and (3) multilateral efforts to advance the global development of biofuels.¹²²

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in the Dominican Republic, El Salvador, and Haiti. In November 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.¹²³ To build on these efforts, President Obama and President Rouseff agreed in March 2011 to commit \$3 million to support the development of legal regimes and domestic biofuels production in the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal.¹²⁴ The United States and Brazil are also working together to develop biofuels for aviation, and with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform.

In 2011, Congress allowed a 54-cent-per-gallon duty on imported ethanol to expire, removing an obstacle to further U.S.-Brazil biofuels cooperation. Prior to its expiration, the duty served as a significant barrier to direct Brazilian imports in most years. Although some Brazilian ethanol was allowed to enter the United States duty-free after being reprocessed in Caribbean Basin Initiative (CBI) countries, such imports could only account for up to 7% of the U.S. ethanol market. A 2.5% ad valorem tariff on ethanol imports remains in place permanently unless the Harmonized Tariff Schedule code is changed.¹²⁵

Nuclear Energy

Between the mid-1970s and the mid-1980s, Brazil's military government sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. Brazil's 1988 constitution limits nuclear activity to peaceful purposes, however, and in 1991, Brazil and Argentina reached an agreement not to pursue nuclear weapons. Although Brazil subsequently joined the Nuclear Nonproliferation Treaty (NPT) and a number of other multilateral nonproliferation regimes, some international observers became concerned when Brazil commissioned a uranium enrichment plant in 2004 and refused to give International Atomic Energy Association (IAEA) inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel, and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international

¹²² 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.

¹²³ U.S. Department of State, Office of the Spokesman, "Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development," November 20, 2008.

¹²⁴ White House, Office of the Press Secretary, "Fact Sheet: U.S.-Brazil Strategic Energy Dialogue," March 19, 2011.

¹²⁵ For more information, see CRS Report R41282, *Agriculture-Based Biofuels: Overview and Emerging Issues*, by Randy Schnepf.

obligations.¹²⁶ Brazil remains opposed to signing the NPT Additional Protocol, which would grant IAEA inspectors increased access to its nuclear program.¹²⁷

Although Brazil currently has just two operational nuclear power plants, the industry is expected to expand. Construction of a third nuclear plant was approved under the Lula Administration, and the current minister of mines and energy has announced plans to approve four additional plants. The minister has asserted that the expansion of nuclear power is the only way that Brazil can meet the fast-growing energy demand of its population while avoiding massive carbon emissions.¹²⁸ Brazil has 139,900-278,700 metric tons of identified uranium resources.¹²⁹

Oil

The recent discovery of substantial oil fields in the Santos Basin, which extends 500 miles along the Brazilian coast, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The Tupi field, discovered in November 2007, has confirmed oil reserves of between 5 billion and 8 billion barrels, and it is estimated that the entire Santos Basin may hold 50 billion barrels of oil.

In December 2010, the Brazilian Congress approved a new regulatory framework for developing the offshore reserves that will increase the state's role in hopes of using the resources to fuel long-term economic and social development. Among other provisions, the framework establishes state-owned *Petróleo Brasileiro S.A.* (Petrobras) as the sole operator for all new offshore projects; replaces the existing concessionary model with a production sharing regime; guarantees Petrobras a minimum 30% stake in all new joint ventures; creates a new public company—*Petrosal*—to manage the development of the offshore reserves; and creates a new social fund overseen by Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.¹³⁰ The development of the new reserves may be delayed, however, as there is currently considerable debate within the Brazilian Congress regarding the distribution of oil royalties, and Petrobras is unable to auction the rights to the new fields until a new royalties framework is in place.¹³¹

Exploiting the new fields will be difficult and costly as the oil is located in the so-called “pre-salt” layer, beneath layers of rock and salt up to 7,000 meters below the seabed. In July 2010, Petrobras announced a five-year, \$225 billion investment plan, 57% of which is to be spent on energy exploration.¹³² Some foreign investors have questioned whether the company will be able

¹²⁶ “New Round of Nuclear Enrichment Scare Stories,” *Latin American Weekly Report*, February 12, 2006; Bernard Aronson, “Brazil’s Chance to Lead on Nuclear Containment,” *Wall Street Journal*, March 18, 2005; Sharon Squassoni and David Fite, “Brazil as Litmus Test: Resende and Restrictions on Uranium Enrichment,” *Arms Control Today*, October 2005.

¹²⁷ Bernard Gwertzman, “Brazil’s Take on Iran and the NPT,” *Council on Foreign Relations*, May 19, 2010.

¹²⁸ “Brazil Eletrobras Expects \$2 Bln Loan for Nuclear,” *Reuters*, January 18, 2011; “Brazil’s Nuclear Ambitions Expand,” *Latin American Regional Report: Brazil & Southern Cone*, November 2008.

¹²⁹ *Uranium 2009: Resources, Production and Demand*, Organization for Economic Cooperation and Development Nuclear Energy Agency & the International Atomic Energy Agency, 2010.

¹³⁰ “Brazil Congress Passes Oil Industry Overhaul,” *Reuters*, December 1, 2010; “The Impact of Pre-Salt: A Long-Term Perspective,” *Oxford Analytica*, May 2010.

¹³¹ “Brazil: O Petróleo é Nosso,” *Latin American Regional Report: Brazil & Southern Cone*, November 2011; “No Brazil Oil Royalty Vote Before 2012-Minister,” *Reuters*, November 17, 2011.

¹³² “Brazil Needs \$270 Bln Over 10-Yrs for Deepwater Oil,” *Reuters*, March 19, 2009.

to access sufficient finance given the enlarged role of the Brazilian government under the new regulatory framework and increased concerns about offshore oil drilling as a result of the 2010 BP oil spill in the Gulf of Mexico.¹³³ Other analysts maintain that the Brazilian reserves are becoming ever-more attractive as a result of the rising price of oil and Brazil's political stability at a time of conflict in other oil producing nations.¹³⁴

In April 2009, the Export-Import Bank of the United States formally offered to consider up to \$2 billion in financing to secure the purchase of U.S. goods and services by Petrobras. According to the Bank, \$2 billion in purchases would help create and maintain over 16,000 U.S. jobs. The Bank has approved \$300 million in financing so far, and has told Petrobras that it would consider increasing its offer above \$2 billion if requested.¹³⁵

Trade Relations

Trade issues are central to the bilateral relationship between the United States and Brazil. Both countries have been closely involved in global, regional, and subregional trade talks; however, they have frequently disagreed on the substance of trade agreements. Within the World Trade Organization (WTO) Doha Round of multilateral trade negotiations¹³⁶ that began in 2001, for example, Brazil has led the G-20 group of developing countries in insisting that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. Similarly, opposition from Brazil and other South American countries effectively killed the U.S.-backed Free Trade Area of the Americas (FTAA) in 2005. During President Obama's March 2011 visit to Brazil, the United States and Brazil concluded an Agreement on Trade and Economic Cooperation. The Agreement creates a new bilateral trade dialogue designed to foster deeper cooperation on issues such as intellectual property rights, trade facilitation, and technical barriers to trade.¹³⁷

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

¹³³ "Brazil's Golden Times Start to Roll," *Latin News Daily*, September 3, 2008; "Hydrocarbons Potential Poses Major Challenges," *Oxford Analytica*, November, 20, 2007; "Brazil Industry: Petrobras Under Pressure," *Economist Intelligence Unit*, August 26, 2010.

¹³⁴ Danielle Nogueira and Ramona Ordonez, "Conflitos no Oriente Médio Tornam Pré-Sal Mais Atraente," *O Globo Online* (Brazil), March 2, 2011.

¹³⁵ Export-Import Bank of the United States, "Facts About Ex-Im Bank Loans to Support Petrobras's Purchases of Goods and Services Made by American Workers," May 27, 2011.

¹³⁶ For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

¹³⁷ White House, Office of the Press Secretary, "Strengthening the U.S.-Brazil Economic Relationship," March 19, 2011.

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

Brazil currently benefits from the Generalized System of Preferences (GSP), which provides duty-free tariff treatment to certain products imported from developing countries. According to Brazil's Ministry of Development, about 13% of Brazilian exports benefit from GSP.¹³⁹ On October 21, 2011, the President signed the Trade Adjustment Assistance Extension Act of 2011 (P.L. 112-40), extending GSP until July 31, 2013.¹⁴⁰

World Trade Organization Cotton Dispute¹⁴¹

Over the past eight years, Brazil and the United States have been involved in a dispute over U.S. subsidies for cotton farmers. In 2002, Brazil went to the WTO to challenge several provisions of the U.S. cotton program. A WTO dispute settlement panel ruled in Brazil's favor in 2004, finding that certain U.S. agricultural support payments and export guarantees were inconsistent with its WTO commitments. Although Congress modified agricultural support programs in 2005, a WTO compliance panel ruled in 2007 that the U.S. actions were insufficient.¹⁴² Following a ruling from a WTO arbitration panel, Brazil announced in March 2010 that it intended to impose retaliatory measures against the United States worth \$829 million, including \$591 million in higher tariffs on a range of U.S. products and \$239 million through suspension of certain intellectual property rights obligations.

In order to avoid retaliatory measures, the United States reached an agreement with Brazil in June 2010. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress has an opportunity to adjust the subsidy program in the 2012 farm bill.¹⁴³

In June 2011, the House passed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2012, which included a provision (H.Amdt. 454) that would have prevented any funds made available under the Act from being used to provide payments to the Brazil Cotton Institute. If the provision had become law, the United States would have been brought into noncompliance with the terms of the agreement signed by both parties in June 2010. The Brazil Cotton Institute provision was not included, however, in the final version of the bill (the Consolidated and Further Continuing Appropriations Act, 2012; P.L. 112-55), which was signed into law on November 18, 2011. Congress is likely to revisit the issue in 2012 as it considers the reauthorization of the farm bill.

¹³⁹ "Deputados dos EUA Renovam Redução de Taxas," *Folha de São Paulo*, September 9, 2011.

¹⁴⁰ For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones

¹⁴¹ For more information on the U.S.-Brazil WTO cotton dispute, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* by Randy Schnepf.

¹⁴² "WTO Tells U.S. to Act on Illegal Cotton Subsidies," *Financial Times*, December 19, 2007.

¹⁴³ 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.

Intellectual Property Rights

Brazil and the United States have periodically engaged in disputes over intellectual property rights. One issue of particular concern to the U.S. government has been Brazil's threats to issue compulsory licenses for patented pharmaceutical products. Internationally recognized as having one of the world's most successful HIV/AIDS programs, Brazil has guaranteed its citizens universal free access to antiretroviral therapy (ART) since 1996. In 2001, Brazil decided to develop generic ART drugs under the compulsory licensing provision of its patent law, and thereby reduce treatment costs. In response, the United States submitted a complaint to the WTO—which was later withdrawn—asserting that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In 2003, the WTO temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). The waiver was made permanent in 2005.

Since the public health exception to the TRIPS rules was made permanent, Brazil has issued, or threatened to issue, compulsory licenses on patented pharmaceutical products on several occasions. In 2007, Brazil broke a patent on a drug used to treat HIV/AIDS that is produced by Merck & Co. in order to save the Brazilian government an estimated \$240 million over five years.¹⁴⁴ Brazil now produces 10 of the 20 drugs used to treat HIV/AIDS and distributes them to African and Latin American countries.¹⁴⁵ More recently, Brazil suggested that developing countries should be allowed to lift patent rights to produce more vaccine to battle the A(H1N1) flu epidemic in 2009.¹⁴⁶

According to the U.S. Trade Representative (USTR), Brazil has improved its record on protecting intellectual property rights in recent years. In recognition of this progress, USTR lowered Brazil from the Priority Watch List of countries with significant intellectual property rights violations to the Watch List in 2007. Brazil has remained on the Watch List every year since 2007, however, as USTR asserts that significant levels of piracy and counterfeiting persist and stronger enforcement is still needed. The United States and Brazil intend to improve their cooperation on intellectual property rights issues under the Agreement on Trade and Economic Cooperation signed in March 2011.¹⁴⁷

Human Rights

According to the 2011 U.S. State Department's *Country Report on Human Rights*, the following human rights problems were reported in Brazil in 2010: "unlawful killings; excessive force, beatings, abuse, and torture of detainees and inmates by police and prison security forces; inability to protect witnesses involved in criminal cases; harsh prison conditions; prolonged pretrial detention and inordinate delays of trials; reluctance to prosecute as well as inefficiency in

¹⁴⁴ "Brazil to Break Merck AIDS Drug Patent: Government Wants Lower Price on Anti-retroviral Medication," *Associated Press*, May 4, 2007.

¹⁴⁵ "Brazil Says it has AIDS under Control," *Agence France Presse*, November 29, 2011.

¹⁴⁶ "Update: Argentina, Brazil Question Swine Flu Vaccine Patents," *CNN Money*, July 24, 2009.

¹⁴⁷ U.S. Trade Representative, *Special 301 Report*, April, 2011.

prosecuting government officials for corruption; violence and discrimination against women; violence against children, including sexual abuse; trafficking in persons; discrimination against indigenous persons and minorities; failure to enforce labor laws; forced labor; and child labor in the informal sector.” The report asserts that human rights violators often enjoyed impunity.¹⁴⁸

Violent Crime and Abuses by Police

Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening citizens’ security in Brazil. Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo where violence traditionally has been linked to turf wars being waged between rival gangs for control of the drug industry or to clashes between drug gangs and police officers, some of whom have formed paramilitary militias that rid their communities of drug gangs only to engage in the very same illicit activities.

As police forces in São Paulo and Rio de Janeiro have employed strong-arm tactics in hopes of curbing the rampant gang violence, some human rights groups have raised concerns over extrajudicial killings. Upon completing a November 2007 visit to Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to “kill with impunity in the name of security.”¹⁴⁹ Indeed, more than 11,000 people were killed by the two police forces between 2003 and 2009. Although the officers involved reported nearly all of the killings as legitimate acts of self defense, or “resistance killings,” a two-year investigation by Human Rights Watch concluded that “a substantial portion of the alleged resistance killings reported ... [were] in fact extrajudicial executions.” The Human Rights Watch report also indicated that those police officers responsible for extrajudicial killings enjoy near total impunity. For example, of the over 7,800 complaints against police officers recorded by the Rio Police Ombudsman’s Office between 2000 and 2009, only 42 generated criminal charges by state prosecutors and just 4 led to convictions.¹⁵⁰ Moreover, attempts by Brazil’s politicians and judiciary to reign in abuses by on and off-duty police have sparked backlash from the militias. A prominent judge known for her tough stance against Rio’s militias was assassinated in August 2011, and a member of Rio de Janeiro’s state legislature who chaired a committee investigating the militias was forced to temporarily flee the country in October 2011 after receiving death threats.¹⁵¹

Analysts have long asserted that Brazilian politicians at all levels of government have failed to devote the resources and political will necessary to confront the country’s serious public security problems; however, there have been a number of efforts in recent years to improve the situation. During the Lula Administration, federal government expenditures on public security more than tripled.¹⁵² State level efforts also increased. One particularly noteworthy example is the state of

¹⁴⁸ U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, *2010 Country Reports on Human Rights Practices*, April 8, 2011.

¹⁴⁹ “Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil,” *States News Service*, November 15, 2007.

¹⁵⁰ Human Rights Watch, *Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo*, December 2009, <http://www.hrw.org/sites/default/files/reports/brazil11209webwcover.pdf>.

¹⁵¹ “Rio Assassination Alarms the Judiciary,” *Latin News Daily*, August 17, 2011; “Brazilian Lawmaker Threatened by Corrupt Cops,” *EFE News Service*, October 31, 2011.

¹⁵² “Recent Public Security Policies in Brazil,” Document provided in a meeting with officials from Brazil’s Ministry of External Relations, December 9, 2010.

Rio de Janeiro's "Favela Pacification Program" that was established in late 2008. Under the initiative, elite police units enter favelas and clear them of drug gangs, allowing newly recruited Police Pacification Units (*Unidades de Polícia Pacificadora*, UPPs) to set up a permanent security presence and other governmental institutions to establish basic social services.¹⁵³ This is a significant change from previous law enforcement efforts, which generally centered around quick raids followed by long periods of government neglect.

UPPs are now present in at least 19 favelas and joint military-police patrols are providing security in two others awaiting pacification units.¹⁵⁴ Although some have expressed concerns about the military taking on civilian responsibilities, most observers have reacted positively to the increased security cooperation between state and federal governments.¹⁵⁵ Moreover, the new initiative appears to have been successful thus far; in 2010, Rio de Janeiro saw a 22% decline in burglaries, a 19% decline in vehicle theft, an 18% decline in homicides, an 18% decline in deaths resulting from confrontations with police, and an 11% decline in street robbery.¹⁵⁶ Through the first seven months of 2011, homicides were down 13% and fatal armed encounters with police were down 25%.¹⁵⁷

Race and Discrimination¹⁵⁸

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

Brazil now has the most extensive antidiscrimination legislation geared towards Afro-descendants of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas to increase minority representation in government service. In 2003, Brazil became the first country in the world to establish a special secretariat with a ministerial rank to manage racial equity promotion policies. In 2010, Brazil enacted the Statute of Racial Equality, which offers tax incentives for enterprises that undertake racial inclusion, stipulates that the government shall adopt affirmative action programs to reduce ethnic inequalities, and reaffirms that African and Brazilian black history should be taught in all elementary and middle schools, among other provisions. Afro-Brazilian activists, while acknowledging government efforts on behalf of Afro-

¹⁵³ Adam Isacson, "Rio de Janeiro's Pacification Program," *Washington Office on Latin America*, January 5, 2011; Stuart Grudgings, "Rio Slums Open for Business as Gangs Ousted," *Reuters*, December 22, 2010.

¹⁵⁴ Bradley Brooks, "Brazil Slum Raids Impress, but What's the Impact?," *Associated Press*, November 15, 2011.

¹⁵⁵ "Brazil: Forty Rio Favelas Targeted for 'Pacification,'" *Latin American Security & Strategic Review*, January 2010; Fabiana Frayssinet, "Police Occupation Hurts Improved Relations with Favelas," *Inter Press Service*, December 1, 2010; Fabiana Frayssinet and Mario Osava, "Brasil: La Policía se Gana Corazones en Río de Janeiro," *Inter Press Service*, November 29, 2010; Julia Michaels, "Rio Real: Brazil Struggles with Next Phase of UPP Program," *InSight: Organized Crime in the Americas*, June 2, 2011.

¹⁵⁶ "Officials: Rio has Lowest Murder Rate in 20 Years," *Associated Press*, February 2, 2011.

¹⁵⁷ "Brazil: 'Nem' to the Good Times for Rio Drug Gangs," *Latin American Weekly Report*, November 10, 2011.

¹⁵⁸ For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke and June S. Beittel.

descendants, have noted that many of the initiatives lack the funding, staff, and clout necessary to be effective.¹⁵⁹ Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.¹⁶⁰

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative seeks to promote equality of opportunity for the members of all racial and ethnic communities of the United States and Brazil. Current areas of focus include health, environmental justice, labor and employment, culture and communication, equal access to quality education, and equal protection of the law and access to the legal system.¹⁶¹ Since the launch of the Joint Action Plan, over \$5.5 million in U.S. interagency funding has supported projects, conferences, exchanges, grants, technical assistance, and other activities.¹⁶² Congress called for continued U.S. support for the Joint Action Plan in the report (H.Rept. 112-331) accompanying the Consolidated Appropriations Act of 2012 (P.L. 112-74).

Trafficking in Persons for Forced Labor¹⁶³

According to the U.S. State Department's *Trafficking in Persons Report*, Brazil does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. As a result, it is listed as a Tier 2 country.¹⁶⁴ Brazil is a source, transit, and destination country for people, especially women and children, trafficked for commercial sexual exploitation. Brazilian Federal Police estimate that upwards of 250,000 children are exploited in domestic prostitution. Brazil is also a source country for men and children trafficked internally for forced labor. More than 25,000 Brazilian men have reportedly been recruited to labor in slave-like conditions, typically on cattle ranches, logging and mining camps, sugar-cane plantations, and large farms producing corn, cotton, soy, and charcoal.

¹⁵⁹ Dayanne Mikevis and Matthew Flynn, "Brazil's Civil Rights Activists Achieving Overdue Policy Reform," *Citizen Action in the Americas*, No. 17, April 2005; Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010; Arthur Brice, "Brazil Enacts Racial Discrimination Law, but Some Say it's Not Needed," *CNN*, July 21, 2010.

¹⁶⁰ Livio Sansone, "Anti-Racism in Brazil," *North American Congress on Latin America (NACLA)*, September 1, 2004; "Affirming a Divide," *Economist*, January 28, 2012.

¹⁶¹ U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality," December 5, 2010.

¹⁶² CRS communication with the U.S. Department of State, Bureau of Western Hemisphere Affairs, Race, Ethnicity, and Social Inclusion Unit, February 23, 2011.

¹⁶³ For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

¹⁶⁴ Since 2001, the U.S. State Department has evaluated foreign governments' efforts to combat trafficking in persons in its annual Trafficking in Persons (TIP) reports, which are issued each June. Countries are grouped into four categories according to the U.S. assessment of efforts they are making to combat trafficking. Tier 1 is made up of countries deemed by the State Department to have a serious trafficking problem but fully complying with the minimum standards for the elimination of trafficking. Those standards are defined in the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) as amended. Tier 2 is composed of governments not fully complying with those standards but which are seen as making significant efforts to comply. Tier 2 Watch List, first added as a category in the 2004 report, is made up of countries that are on the border between Tier 2 and Tier 3. Tier 3 includes those countries whose governments the State Department deems as not fully complying with TVPA's anti-TIP standards and not making significant efforts to do so. Tier 3 countries have been made subject to U.S. sanctions since 2003.

Over the past year, the Brazilian government has taken a number of actions to address the problem of human trafficking. The Ministry of Labor's mobile units rescued 2,270 victims from slave-like conditions, and leveled sanctions against 294 employers.¹⁶⁵ The Brazilian government also continued prosecuting traffickers, providing assistance to victims, and publically identifying individuals and corporate entities determined to have been responsible for crimes under the slave labor law. Despite these actions, the State Department maintains that Brazil has made only limited progress in bringing traffickers to justice.¹⁶⁶

Amazon Conservation

The Amazon basin spans the borders of eight countries and is the most biodiverse tract of tropical rainforest in the world. It holds 20% of the Earth's fresh water and 10% of all known species. The Amazon also holds 10% of the world's carbon stores and absorbs nearly 2 billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.¹⁶⁷

The Brazilian Amazon was largely undeveloped until the 1960s, when the military government began subsidizing the settlement and development of the region as a matter of national security. Over the last 40 years, the human population has grown from 4 million to over 20 million, and the resulting settlements, roads, logging, cattle ranching, and subsistence and commercial agriculture have led to approximately 15% of the Brazilian Amazon being deforested.¹⁶⁸ In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not been borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.¹⁶⁹ Between 1990 and 2000, Brazil lost approximately 70,000 square miles of forest. Deforestation rates have generally declined since the peak year of 2004.¹⁷⁰

¹⁶⁵ "Cerca de 2.270 Personas Rescatadas de Trabajos Esclavos en Brasil en 2011," *Agence France Presse*, January 3, 2012.

¹⁶⁶ U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2011*, June 27, 2011.

¹⁶⁷ "Brazil: Global Warming Risks Threaten Amazonia," *Oxford Analytica*, March 16, 2009; Conor Foley, "The End of the Amazon?," *Foreign Policy*, June 2009; Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008; "Amazon: World's Largest Tropical Rainforest and River Basin," *World Wildlife Fund*, 2009.

¹⁶⁸ Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

¹⁶⁹ Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate existing lands. After agriculture, pasture grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning alter the ecosystem to the point that forests cannot regenerate.

¹⁷⁰ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report: Brazil & Southern Cone*, December 2008.

Domestic Efforts

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions,¹⁷¹ the Brazilian government has expanded protected areas and implemented new environmental policies. The Lula Administration created over 60 new natural reserves, bringing the total area of the Brazilian Amazon protected by law to nearly 110,000 square miles, the fourth-largest percentage of protected area in relation to territory in the world.¹⁷² Lula also signed a Public Forest Management Law to encourage sustainable development and placed a moratorium on soybean plantings and cattle ranching in the Amazon. The Brazilian government intends to reduce the rate of Amazon deforestation by half—based on the 1996-2005 average—to 2,300 square miles per year—by 2017 and reduce Amazon deforestation by 80% by 2020. Brazil plans to meet these goals by increasing federal patrols of forested areas, replanting over 21,000 square miles of forest, and financing sustainable development projects in areas where the local economy depends on logging.¹⁷³ The rate of deforestation in Brazil has already fallen by 80% since 2005,¹⁷⁴ however, some of the decline could be the result of lower demand for agricultural commodities in the aftermath of the global financial crisis.

Although some conservation groups praise the Brazilian government's actions, a number of environmentalists have questioned the country's commitment to sustainable development.¹⁷⁵ Critics assert that the Brazilian government favors agricultural interests over conservation. In June 2009, Lula approved a law that granted nearly 260,000 square miles of the Amazon to illegal squatters, 72% of which was directed to large land holders.¹⁷⁶ Likewise, the Brazilian legislature is currently considering a revision to the forest code that would provide partial amnesties for past deforestation, reduce the amount of forest that farmers must preserve, and relax conservation requirements for environmentally sensitive areas like hilltops and river banks.¹⁷⁷ While supporters of these measures argue that they are necessary to bring farmers into compliance with the law and make the laws more enforceable, opponents assert that farmers will engage in additional deforestation in anticipation of future amnesties.¹⁷⁸

International Initiatives

In August 2008, Brazil launched the "Amazon Fund" to attract donations from countries, companies, and non-governmental organizations to assist in Brazil's Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021 to support forest conservation, scientific research, and sustainable development. The first projects funded by the Amazon Fund were

¹⁷¹ "Brazil: The Land Cries for Amazonia," *Latin America Data Base, NotiSur*, February 13, 2009.

¹⁷² "Brazil: Government Policy for Amazon Still Ambiguous," *Latin News Weekly Report*, May 22, 2008.

¹⁷³ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report: Brazil & Southern Cone*, December 2008; "Brazil: Climate Credentials to the Fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

¹⁷⁴ Alexei Barrionuevo, "In Brazil, Fears of a Slide Back for Amazon Protection," *New York Times*, January 24, 2012.

¹⁷⁵ See, for example, Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; and Ana Paula Paiva, "Brazil Environment Minister Says Lacks Support," *Reuters*, May 28, 2009.

¹⁷⁶ Jose Pedro Martins, "Brazil: Environmentalists and Church Protest Legalization of Fraudulently Obtained Lands in the Amazon," *Latin America Data Base, NotiSur*, June 25, 2009.

¹⁷⁷ Raymond Colitt, "Farmers Gain, Forests at Risk from Brazil Land Bill," *Reuters*, May 24, 2011.

¹⁷⁸ Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," *Reuters*, June 1, 2011; "Brasil: Ex Ministros de Medio Ambiente Claman Contra Reforma de Ley Forestal," *Agence France Presse*, May 23, 2011.

announced in December 2009. They include projects to regenerate degraded land, monitor land registration titles, and pay rubber tappers and other forest dwellers to protect the forest.¹⁷⁹

U.S. environment programs in Brazil are designed to support tropical forest conservation through the promotion of proper land-use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, the U.S. Agency for International Development (USAID) initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon's biodiversity. USAID provided Brazil with \$14 million for environmental programs in FY2010 and \$11.5 million in FY2011.¹⁸⁰ The report (H.Rept. 112-331) accompanying the Consolidated Appropriations Act of 2012 (P.L. 112-74) directed that at least \$10 million be used to support biodiversity programs in the Brazilian Amazon in FY2012.

In August 2010, the United States and Brazil signed a debt-for-nature agreement under the Tropical Forest Conservation Act of 2008 (P.L. 105-214). Under the agreement, the United States will reduce Brazil's debt payments by \$21 million over five years. In exchange, the Brazilian government will commit those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.¹⁸¹

Author Contact Information

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

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¹⁷⁹ "Brazil Unveils First Foreign-Funded Amazon Projects," *Reuters*, December 4, 2009.

¹⁸⁰ U.S. Agency for International Development, *CN #122*, August 18, 2011.

¹⁸¹ U.S. Department of State, Office of the Spokesman, "Debt-for-Nature Agreement to Conserve Brazil's Tropical Forests," August 12, 2010. For more information on the Tropical Forest Conservation Act, see CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheikh.