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Brazil-U.S. Relations

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Summary

In January 2003, President Luis Inácio “Lula” da Silva, of the leftist Workers’ Party (PT), began a four-year term as President of Brazil. Despite winning on a leftist platform, President Lula has maintained the orthodox economic policies associated with his predecessor, even surpassing fiscal and monetary targets. Inflation and interest rates have been on a downward trend, Brazil’s credit rating has improved, but economic growth remains modest (2.3% in 2005). In 2003, President Lula gained congressional approval of social security and tax reforms and in 2004 a new law to increase private investment in public infrastructure projects. Despite these achievements, legislative progress stalled in 2005, and President Lula has been criticized for failing to develop effective social programs to address Brazil’s persistent problems concerning land redistribution, social inequality, and crime.

The next national elections are scheduled for October 2006. The leading presidential candidates are President Lula and Geraldo Alckmin, former governor of the state of São Paulo, of the Brazilian Social Democratic Party (PSDB). In late 2005, a series of corruption scandals involving senior PT officials, legislators, and cabinet officials weakened the Lula government. President Lula has since recovered popular support, however, and is currently leading in opinion polls. Opposition parties are forming electoral alliances to attempt to defeat President Lula and the PT.

Relations with the United States have been generally positive, although President Lula has made relations with neighboring countries in the Southern Common Market (Mercosul or Mercosur) his first priority, and has sought to strengthen ties with nontraditional partners, including India and China. Trade issues are central to the bilateral U.S.-Brazilian relationship, with both countries being heavily involved in subregional, regional, and global trade talks in the Doha round of the World Trade Organization (WTO) negotiations. The United States and Brazil have different approaches to trade liberalization, which have put the two countries at odds over how to proceed with the Free Trade Area of the Americas (FTAA) negotiations.

In addition to trade policy, U.S. interest in Brazil centers on its role as a stabilizing force in Latin America, especially with respect to populist governments in Venezuela and Bolivia. Brazil’s nuclear enrichment capabilities and its role as an ethanol producer have generated growing interest in the United States. Brazil is also a key U.S. ally whose cooperation is sought on issues that include counter-narcotics efforts; human rights concerns, such as race relations and trafficking in persons; the environment, including protection of the Amazon; and HIV/AIDS prevention.

This report analyzes Brazil’s political, economic, and social conditions, and how those conditions affect its role in the region and its relationship with the United States. For additional information, see CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J.F. Hornbeck. This report will be updated periodically.

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Brazil-U.S. Relations

Background

Brazil is a significant political and economic power in Latin America, but deep-seated social and economic problems have kept it from realizing its goal of becoming a truly global leader. A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity, including the vast Amazon rainforest, and significant natural resources. Brazil is the fifth most populous country in the world with a population of some 188 million that is primarily composed of people of European, African, or mixed African and European descent. With an estimated gross domestic product (GDP) of \$769 billion in 2005, Brazil's diversified economy is the eleventh largest in the world, the largest in Latin America, and one of the largest in the developing world, but per capita gross national income is only \$3,090, and the country has a highly unequal income distribution. Brazil has long held potential to become a major world power, but its rise to prominence has been held back by political setbacks, including twenty-one years of military rule (1964-1985), social problems, and slow and uneven economic growth. This apparent failure to live up to its enormous potential has resulted in the common adage, "Brazil is the land of the future, and always will be."¹

Between World War II and 1990, both democratic and military governments sought to expand Brazil's influence in the world by pursuing a state-led industrial policy and an independent foreign policy. Brazilian foreign policy has recently aimed to strengthen ties with other South American countries, engage in multilateral diplomacy through the United Nations (UN) and the Organization of American States (OAS), and act at times as a countervailing force to U.S. political and economic influence in Latin America. In addition to its active engagement in regional and multilateral trade talks, Brazil under President Luis Inácio "Lula" da Silva has helped diffuse potential political crises in Venezuela, Ecuador, and Bolivia, and supported Colombia's ongoing struggle against terrorist organizations and drug traffickers. Brazil is also currently commanding the UN stabilization force in Haiti.

Currently, relations between the United States and Brazil are characterized as warm and friendly, and leaders from both countries have recently asserted that "the economic and political environment in the Americas is changing rapidly, creating

¹ Lincoln Gordon, *Brazil's Second Change En Route Toward the First World*, Washington, D.C.: The Century Foundation, 2001; Iêda Wiarda Siqueira, "Brazil: The Politics of A New Order and Progress," in *Latin American Politics and Development*, Howard J. Wiarda and Harvey F. Kline, eds., Boulder, CO: Westview Press, 2000.

new challenges that we can meet better if we do so together.”² The United States has increasingly regarded Brazil as a significant power, especially in its role as a stabilizing force and skillful interlocutor in Latin America. U.S. officials tend to describe Brazil, similar to Chile, as a friendly country governed by a moderate leftist government that shares the U.S. commitment to democratic practices, human rights, and prudent macroeconomic policies. They assert that the United States seeks to increase cooperation with moderate leftist governments in Latin America in order to diffuse mounting tensions among the countries in South America, and to deal with populist governments in the region. The latter, including those in Bolivia and Venezuela, have taken increasingly antagonistic stances towards both foreign-owned companies and the United States.

Although they share common goals for regional stability, Brazil’s independent approach to foreign policy has led to periodic disputes with the United States on trade and political issues, including Brazil’s vocal opposition to the war in Iraq. Despite these disagreements, Brazil and the United States have worked closely on a wide range of bilateral and regional issues. In addition to trade matters, these issues include counter-narcotics and terrorism, energy security, human rights protection, environmental issues (including protection of the Amazon), and HIV/AIDS.

Political Situation

The Brazilian political system has several unique characteristics that distinguish it from other countries in Latin America. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Even during the centralizing government of Getúlio Vargas and the Estado Novo, or New State, (1937-1945), landowning remained the source of local power in Brazil and states retained considerable autonomy from the federal government. Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as their counterparts in other South American countries. Although nominally allowing a two-party system, 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 take place in Latin America. Brazil also stands out as one of the last countries in the region to abandon state-led economic policies, originally adopted as part of the import-substitution industrial model, in favor of market reforms. Significant reforms of the state-led economic model did not occur until the government of Fernando Henrique Cardoso (1994-2002).³

² Richard G. Lugar and Roberto Abdenur, “U.S.-Brazil: Friends Working on Common Goals on Economy, Energy,” *Miami Herald*, May 6, 2006.

³ For a historical overview of Brazil’s political development, see Bolivar Lamounier, “Brazil: Inequality Against Democracy,” in Larry Diamond, Jonathan Hughes, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Latin America*, Boulder, CO: Lynne Reiner, 1999.

During the first decade after its return to democracy in 1985, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office; the other was impeached on corruption charges. In 1994, Cardoso, a prominent sociologist of the center-left Brazilian Social Democratic Party (PSDB), was elected by a wide margin over Luis Inácio “Lula” da Silva of the Worker’s Party (PT), a former metalworker and union leader who had led the PT since the early 1980s. Cardoso was elected largely on the basis of the success of the anti-inflation “Real Plan” that he implemented as Finance Minister earlier that year. The plan resulted in a new currency (the real) pegged to the dollar beginning in July of 1994. During his first term, Cardoso achieved macroeconomic stability, opened the Brazilian economy to trade and investment, and furthered privatization efforts begun in the early 1990s. Despite those achievements, the Cardoso government was unable to enact much needed political and social changes, such as social security, tax, or judicial reforms.

President Cardoso sought a second presidential term after a constitutional reform was passed in 1997 to allow for reelection, and he defeated Lula da Silva in the first presidential election round in October 1998 with 53% of the vote. President Cardoso’s popularity fell towards the end of his second term, however, as Brazil faced a major financial crisis in 1998 that resulted in a major currency devaluation and a return to a floating exchange rate in 1999, as well as contagion effects from Argentina’s financial collapse in 2001. On balance, most analysts credit Cardoso with restoring macroeconomic stability to Brazil’s economy and solidifying its role as leader of the Southern Common Market (Mercosul)⁴, but fault him for failing to implement more aggressive political reforms or more effective social programs. In 2002, Brazilian voters appeared to punish the Cardoso government for those apparent shortcomings by failing to elect Cardoso’s designated successor, José Serra, the Minister of Health and Senator from São Paulo, who led the coalition of parties that had governed since 1994.⁵

Lula Administration

In 2002, Lula da Silva ran in his fourth campaign for the presidency of Brazil. Unlike in his previous failed campaigns, he moderated his leftist rhetoric and, while still advocating greater attention to social issues, promised on several occasions to maintain the fiscal and monetary policies associated with Brazil’s standing International Monetary Fund (IMF) agreements. Lula, as he prefers to be known, argued for a more aggressive foreign policy and for strengthening of Mercosul, but

⁴ Mercosul is the Portuguese variation of the more widely seen Spanish acronym, Mercosur. It is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991.

⁵ For background on Brazil during the Cardoso government, see CRS Report RL30121, *Brazil Under Cardoso*, by K. Larry Storrs. See also Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004; Rex Hudson, ed., *Brazil: A Country Study*, Washington D.C.: Federal Research Division, Library of Congress, 1998; and Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997.

was often critical of the proposed Free Trade Area of the Americas (FTAA). He led in the public opinion polls throughout the campaign.

The 2002 presidential election proved to be a referendum on eight years of “neo-liberal” policies enacted by the Cardoso government. High unemployment rates and continued economic stagnation led voters to support Lula, a sharp critic of neoliberalism. Although Lula did not win outright in the first round of voting, he was elected decisively in the second round with 61% of the valid vote, as compared to José Serra with 39%. Several factors may account for Lula’s commanding presidential victory and the PT’s strong showing in the 2002 congressional elections. They include the PT’s reputation as a “clean” political party untainted by corruption; the PT’s promise to increase state investment in education, health care, and agrarian reform; and Lula’s compelling personal story.⁶ By 2002, it appeared that a majority of Brazilians were ready to give Lula and the PT a chance to govern Brazil based on the principle that the solution to Brazil’s political and social problems lay in measures aimed to attack poverty and inequality.⁷

In January 2003, Lula da Silva was inaugurated for a four-year term as President of Brazil. President Lula has maintained the restrained economic policies associated with his predecessor, even surpassing the IMF’s fiscal and monetary targets. In 2003, the Lula government enacted social security and tax reforms, and in 2004, a new law to allow more private investment in public infrastructure projects.

Despite these achievements, legislative progress stalled in 2005, and President Lula has been increasingly criticized for failing to develop effective social programs to address Brazil’s ongoing problems with land distribution, social inequity, and crime. President Lula’s flagship social programs, including *Fome Zero* (Zero Hunger) and *Bolsa Familia* (Family Purse), have received considerable press attention, but their success has been limited by bureaucratic problems, local corruption, and tight budget constraints.⁸ Many critics of Lula believe that, ironically, one of the Lula government’s only major achievements has been maintaining the orthodox economic policies of the Cardoso administration. President Lula’s relatively successful early efforts to expand Brazil’s international profile as a leader among developing countries has been seen as “a relatively inexpensive [tactic] to

⁶ Wendy Hunter and Timothy J. Power, “The Lula Government at Mid-Term: Shaping a Third Decade of Democracy in Brazil,” *Journal of Democracy*, July 2005.

⁷ Anna Ozorio de Almeida, “Continuity and Change in the PT Government,” *CESPI*, September 2004.

⁸ Launched in 2003, Zero Hunger is President Lula’s flagship anti-poverty initiative. It is a broad-based set of policies and programs aimed to combat food insecurity and poverty. The Family Stipend program is a conditional cash transfer program that provides monthly stipends to families in exchange for compulsory school attendance for all school-age children. As of December 2005, the Family Stipend program served some 8 million Brazilian families. See “Zero Hunger: A Food Security Policy for Brazil, Embassy of Brazil, available at [http://www.brasilemb.org/social_issues/zero_hunger_program.shtml]; Kathy Lindert, “Bolsa Familia Program — Scaling Up Cash Transfers for the Poor,” *World Bank*, available at [<http://www.mfdr.org/sourcebook/6-1Brazil-BolsaFamilia.pdf>].

shore up domestic support, even when news on the home front is not encouraging.”⁹ The efficacy of Lula’s diplomatic efforts has also recently been questioned as he has not attempted to mediate the paper mills dispute between Argentina and Uruguay that threatens to fracture Mercosul, or to vigorously defend Brazil’s energy interests in Bolivia that are threatened by Evo Morales’ recent decision to nationalize his country’s natural gas industry.¹⁰

Corruption Scandals. Many political scientists have long asserted that the fragmented nature of Brazil’s electoral and party systems have made the country extremely difficult to govern. They maintain that the country’s institutions create incentives that encourage politicians to concentrate on delivering pork-barrel programs to their political benefactors rather than legislating issues of national concern. In addition, most Brazilian political parties tend to be more personalistic than ideological, and many are locally or regionally based rather than national in scope. As a result, forming successful governing coalitions in Brazil often has less to do with finding political parties with ideological similarities than with distributing ministries or other patronage in exchange for political support.¹¹ Many Brazilians had hoped that the PT would be able to clean up Brazilian politics, but those hopes seemed dashed in the wake of a major corruption scandal involving top PT officials that erupted in May 2005. As the PT moderated its leftist programmatic focus in an attempt to appeal to more Brazilian voters, it seemed to abandon its original supporters (including the landless movement, non-governmental organizations (NGOs), human rights groups, and the Catholic Church), and also fell prey to the temptation to engage in corrupt practices.¹²

The main corruption scandal, which resulted in the resignation of several senior PT officials and the impeachment of several legislators, including President Lula’s former Chief of Staff who had since returned to Congress, involved the President’s party allegedly paying monthly bribes (*mensalões*) to congressmen of the allied parties in the governing coalition to guarantee their support. Another facet to the scandal is that the PT and other parties have used off-the-books accounting systems that do not comply with campaign finance laws to pay for campaigns and other political activities. In late March 2006, Finance Minister Antonio Palocci was forced to resign amidst allegations of corruption, but a congressional inquiry has cleared

⁹ Jeffrey Cason, “Hopes Dashed? Lula’s Brazil,” *Current History*, February 2006; Jeffrey W. Rubin, “Can Democracy Challenge Empire in Lula’s Brazil?” *NACLA Report on the Americas*, September/October 2005.

¹⁰ “One Year on, Small Dispute Threatens Mercosul,” *Latin American Regional Report: Brazil and Southern Cone*, April 2006; “Bolivia’s Populism Steps on Brazil,” *Christian Science Monitor*, May 8, 2006.

¹¹ Barry Ames, *The Deadlock of Democracy in Brazil*, Ann Arbor, MI: University of Michigan Press, 2001.

¹² Wendy Hunter, “The Normalization of An Anomaly: The Worker’s Party in Brazil,” Paper Presented at the Latin American Studies Association Conference, San Juan, Puerto Rico, March 2006.

President Lula of any direct responsibility for the scandals.¹³ Brazil's Attorney General later announced criminal charges against 40 individuals implicated by that congressional inquiry. Although some political analysts believe President Lula had to be aware of the bribery and irregular financing schemes, they also assert that there seems to be little political will in Brazil to attempt to impeach a sitting president for corruption in an election year. In another unrelated incident, Brazil's federal police released a list of 60 congressmen in May 2006 who were allegedly involved in another scandal involving the release of money from the health ministry for the purchase of ambulances without public notification.

As a result of the corruption scandals, both President Lula and the Worker's Party lost significant popular support and credibility. In December 2005, only 16% of voters identified themselves with the PT as compared to 24% the year before. President Lula's approval rating also fell from 58% in March to 42% in December 2005.¹⁴ Despite the initial popular outrage in response to the scandal, the PT has decided not to investigate or punish any party members allegedly involved in the scandals until 2007, after the election campaign.

October 2006 Elections. Brazilians will head to the polls to elect a new President and Vice President, federal legislators (all Deputies and one third of the Senate), and governors in October 2006. The electoral campaign will begin once all the official candidates are announced by the end of June 2006. Although many of the major parties' candidates, including President Lula, have yet to be officially selected, the most likely presidential election scenario involves President Lula facing Geraldo Alckmin, governor of the state of São Paulo of the centrist PSDB, which is aligned with the rightist Party of the Liberal Front (PFL). Brazil's electoral court has ruled that a constitutional clause that makes it mandatory for parties to repeat the same electoral alliances at the local and national levels should remain in place for the October elections (a practice known as verticalization). This ruling may make it more difficult for Lula and the PT to form coalition electoral alliances at the national level with parties like the center-right Party of the Brazilian Democratic Movement (PMDB) that are highly competitive against the PT in some states and municipalities. It may be that the PT will seek to form "flexible"(informal) alliances with the PMDB and other parties, against the PSDB, PFL, and possibly others. Recent polls show President Lula with a significant lead over Mr. Alckmin, and most analysts are predicting that he will be reelected.¹⁵

¹³ "Brazil: Lula Cleared as He Prepares For Re-Election Bid," *Latinnews Weekly Report*, April 4, 2006.

¹⁴ Jeffrey Cason, "Hopes Dashed? Lula's Brazil," *Current History*, February 2006;"Brazil: A Country Report," *Economist Intelligence Unit*, January 2006.

¹⁵ "Lula Leaves Other Candidates Lagging Behind," *Latinnews Daily*, May 25, 2006.

Economic and Social Conditions

Brazil is a regional leader in Latin America, but its rise to global prominence has been hindered by significant economic and social problems.

Economic Conditions

Throughout the last two decades, Brazil's fiscal and monetary policies have achieved mixed results by focusing primarily on inflation control. When President Lula took office in 2003, Brazil had an extremely high level of public debt, virtually necessitating that he adopt austere economic policies. Despite his leftist political origins, President Lula has maintained restrained economic policies, even surpassing the IMF's fiscal and monetary targets. As a result of these restrained economic policies, Brazil has begun to experience some benefits, including lower inflation (5.1% in 2005) and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule. Fiscal discipline has also been accompanied by record exports that enabled Brazil to post GDP growth of 4.9% in 2004 and record trade surpluses in 2004 and 2005.

Some analysts predict that the economy, which grew only 2.3% in 2005 but is expected to expand more rapidly in 2006, will be an asset for President Lula during the presidential campaign. They argue that President Lula should be credited for allowing his economic team to pursue cautious policies despite pressure from the PT to increase government spending. Even as the minimum wage expanded by some 13% in April 2006 and spending on infrastructure expands in the months leading up to the elections, many analysts predict that Brazil will continue to meet its current fiscal targets. Others are less certain, however, because of Finance Minister Antonio Palocci's ouster in late March 2006 related to the corruption scandals. His replacement has vowed not to increase spending or decrease interest rates too rapidly.¹⁶

Brazil is a major exporter of agricultural and industrial products, with estimated exports of \$120 billion in 2005, and plays a significant role in the world trading system. In 2004, Brazil was the world's third largest exporter of agricultural products after the United States and the European Union; it was the leading exporter of coffee, orange juice, sugar, and soy products, and a leading exporter of meat products. Primary products accounted for only 30% of 2004 exports, with manufactured products (including automobiles and aircraft) accounting for 55% and semi-manufactured goods accounting for 14%. In both 2004 and 2005, Brazil had a relatively balanced trade regime. Its main trading partners in 2005 were the European Union (22% of exports and 25% of imports), the United States (19% of exports, 17% of imports), Asia (20% of exports, 27% of imports, with China alone accounting for 6% of exports and 7% of imports), Latin America (22% of exports, 15% of imports), Africa (4% of exports, 9% of imports), and the Middle East (4% of exports and imports). Brazil's exports increased 32% in 2004 to \$96 billion, and

¹⁶ "Brazil: Optimism Reigns," *Latinnews Economy and Business*, November 2005; "Brazil: Country Report," *Economist Intelligence Unit*, March 2006; "Scandal Topples Brazil's Finance Minister," *Miami Herald*, March 28, 2006.

produced a trade surplus of \$33.7 billion. In 2005, the value of Brazil's exports reached \$120 billion and the country's trade surplus was \$45 billion.¹⁷

Despite these positive economic and trade indicators, the United Nations and other observers have taken a sobering view of Brazil's economic situation. A January 2006 UN report predicts that, compared to other emerging economies, Brazil will underperform in 2006. The UN predicts that Brazil is likely to grow at only about 3% as compared to a predicted 5.6% average growth rate among the 25 largest emerging economies. Brazil's growth rates have been constrained by a high public debt burden, excessive taxation, and lack of investment. Investment in Brazil has been limited by the country's high interest rates, extremely complex tax system, weak regulatory framework, and lack of a competitive labor force. Although growth has picked up in the last two years, it has not been fast enough to significantly improve the country's socioeconomic indicators. The Organization for Economic Cooperation and Development (OECD) and the Brazilian Bishop's Conference have recently questioned the adequacy and effectiveness of funds dedicated to social programs in Brazil.¹⁸ Unemployment and excessive employment in the informal economy are also major problems.¹⁹

Social Indicators

Brazil has a well-developed economy and large resource base, but has had major problems solving deep-seated social problems like poverty and income inequality. Brazil has one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world, and a 2004 World Bank study reported that some 50 million Brazilians live in poverty.²⁰ The United Nations Development Program (UNDP) has identified 600 Brazilian municipalities, many in the north and northeastern part of the country, in which poverty levels are similar to those present in poor African countries. One major cause of poverty and inequality in Brazil is historically extreme land concentration among the country's elites. In Brazil, 1% of the population controls 45% of the farmland.²¹ In addition to the country's regional income disparities and unequal land distribution, the Brazilian government has acknowledged that there is a racial component to poverty in Brazil. People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country's population, but constitute 64% of the poor and 69% of the extreme

¹⁷ Trade data is from the reports available on the website of the Brazilian Ministry of Development, Industry and Trade and from the World Trade Atlas, accessed May 25, 2006.

¹⁸ United Nations, *World Economic Situation and Prospects*, January 2006; "Social Expenditure Criticized," *Latinnews Daily*, March 3, 2006.

¹⁹ The "informal economy" generally refers to any economic activity by workers or other economic units that are — by law or in practice — not covered or insufficiently covered by formal labor laws.

²⁰ David De Ferranti et al., *Inequality in Latin America: Breaking with History?* Washington, DC: The World Bank, 2004.

²¹ "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

poor.²² Other factors that inhibit the social mobility of Brazil's poor include a lack of access to quality education, and a lack of opportunity for job training and improvement.

Brazil's endemic poverty and inequality have yet to be significantly affected by the government's social programs. A March 2005 OECD study found that, even though Brazil has spent the same level or more of public spending on social programs as other countries with similar income levels, it has not achieved the same social indicators as those countries.²³

Foreign and Trade Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries, and an emerging world power. Brazilian foreign policy is based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.²⁴ These principles, which have periodically put Brazil at odds with the United States (such as Brazil's vocal opposition to the war in Iraq), developed because Brazil possesses neither a strong military nor strong ideological or geopolitical ambitions. Instead of pursuing unilateral prerogatives, Brazilian foreign policy has tended to emphasize regional integration, first through the Common Market of the South (Mercosul) and now the South American Community of Nations. Brazil engages in multilateral diplomacy through the OAS and the UN, and has recently increased ties with developing countries in Africa and Asia.

Brazil has traditionally been a leader in South America.²⁵ Since the mid-1990s, Brazil has had much more success in developing political cohesion than true economic integration amongst its neighbors in the Southern Cone. Mercosul was established in 1991 by Brazil, Argentina, Paraguay, and Uruguay. In 1996, Chile and Bolivia became "associate members"; Peru followed in 2003 (not implemented) and Venezuela and Mexico in 2004. Associate members have no voting rights and need not observe the common external tariff. In October 2004, after years of talks, Mercosul and the Andean Community of Nations signed a trade pact, giving all Andean countries — Bolivia, Colombia, Ecuador, Peru, and Venezuela — the equivalent of associate membership. This breakthrough led to the creation of the

²² Ricard Henriques, "Desigualdade racial no Brasil," Brasilia: *Instituto de Pesquisa Econômica Aplicada (IPEA)*, 2001.

²³ "Economic Survey of Brazil 2005," *Organization for Economic Cooperation and Development*, March 2005.

²⁴ Georges D. Landau, "The Decisionmaking Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

²⁵ Some would argue that Venezuela, buoyed by its recent oil wealth, is now attempting to overtake Brazil's role as a leader in the region. Rather than strengthening relations among its neighboring countries, some assert that Chávez's aggressive foreign policy has created tension within Latin America. See Juan Forero, "Seeking United Latin America, Venezuela's Chávez is a Divider," *New York Times*, May 20, 2006.

South American Community of Nations two months later in a pact that included 12 countries (those in Mercosul, the Andean Community, along with Chile, Guyana, and Suriname). In December 2005, Mercosul agreed to the accession of Venezuela as a full member of the pact, but the process may take some time to finalize.²⁶

Recent events have not boded well for the future of South American integration efforts. The weakness of Mercosul's internal dispute resolution process has become apparent as a dispute between Argentina and Uruguay has escalated to the point that it now threatens the future of the trade bloc. The dispute is over whether to allow European companies to construct two paper mills along the river that demarcates their border. Uruguay has threatened to withdraw from Mercosul, arguing that it seems to serve only the needs of Argentina and Brazil, at the same time that Venezuela, angered by Peru's and Colombia's decisions to pursue FTAs with the United States, has withdrawn from the Andean Community.

In addition to expanding its regional profile through established political and economic channels, Brazilian government and business officials have, at times, worked together to expand the country's commercial interests in the region. Petrobras, Brazil's state-owned oil company, has made extensive investments in Bolivia's natural gas sector. Most analysts predicted that since Petrobras produces some 15-20% of Bolivia's GDP, Brazil would be able to exert important economic and political leverage over the new Bolivian government led by populist Evo Morales. Analysts, government officials, and the Brazilian public have criticized President Lula for failing to more vigorously defend Brazil's energy interests in Bolivia after Morales' surprise decision to nationalize his country's natural gas industry on May 1, 2006. In response, Petrobras has halted all new investments in Bolivia.²⁷

Bolivia's nationalization decision, which has been supported by the Chávez government in Venezuela, may make other sectoral initiatives that have been recently proposed — including a South American gas pipeline that would carry Venezuela's gas through Brazil to Argentina — less likely to be pursued. The Bolivian government has also indicated that nationalization of the natural gas industry would be followed by new measures to re-distribute some 54,000 square miles of land that it asserts is either idle or has been acquired illegally. Any land reform proposal is likely to adversely affect lands acquired by Brazilians in Bolivia, particularly in the fertile Santa Cruz province, and would place added strain on Brazil-Bolivian relations.²⁸

²⁶ For more information, see CRS Report RS22408, *Mercosul and U.S. Trade Policy* and CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, both by J.F. Hornbeck, and CRS Report RL33162, *Trade Integration in the Americas*, by M. Angeles Villarreal.

²⁷ Andres Oppenheimer, "Powerful Brazil is Becoming an Encircled Giant," *Miami Herald*, May 14, 2006; "Bolivia's Populism Steps on Brazil," *Christian Science Monitor*, May 8, 2006.

²⁸ "Brazilian Farmers in Bolivia Fear Being Targeted in Land Reform Push," *Associated Press*, May 12, 2006.

Brazil's political, business, and military ventures are complemented by the country's trade policy. In Brazil, the Ministry of Foreign Relations continues to dominate trade policy, causing the country's commercial interests to be (at times) subsumed by a larger foreign policy goal, namely, enhancing Brazil's influence in Latin America and the world.²⁹ For example, while concluding meaningful trade agreements with developed economies (such as the United States and the European Union) would probably be beneficial to Brazil's long-term economic self-interest, the Brazilian government has instead prioritized its leadership role within Mercosul and expanded trade ties with countries in Africa, Asia and the Middle East. Brazil has also become the leading voice of developing countries at the World Trade Organization (WTO), forming the Group of 20 countries to push demands that the EU, U.S., and Japan open up their agricultural sectors to outsiders.³⁰

Brazil has long been recognized for its diplomatic activism, especially through the OAS and the UN. During the Lula administration, the Brazilian government has helped diffuse potential political crises in Venezuela, Ecuador, and Bolivia, and supported Colombia's ongoing struggle against terrorist groups and drug traffickers. Brazil is also currently commanding a multinational UN stabilization force of some 8,900 police and military personnel in Haiti.³¹ Some analysts assert that these initiatives have enhanced Brazil's international profile and its prospects for eventually attaining a permanent seat on the UN Security Council. Others have noted that these moves sometimes irk other regional powers, including Argentina and Mexico; that the success of the UN Mission has been somewhat dubious; and that Brazil may have overestimated its potential to be a world power.³²

Relations with the United States

As a result of its significant political and economic clout, Brazil's leaders have traditionally "preferred pragmatic and opportunistic cooperation with the United States on specific issues" rather than seeking to develop an all-encompassing, privileged relationship with the United States. The United States, in turn, has increasingly regarded Brazil as a stabilizing force and skillful interlocutor in the hemisphere. While the two nations may disagree on trade issues, they agree on the importance of maintaining regional stability and security, fighting terrorism

²⁹ See CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J.F. Hornbeck.

³⁰ See CRS Report 98-928, *The World Trade Organization: Background and Issues*, by Ian F. Fergusson.

³¹ United Nations Stabilization Mission in Haiti (MINUSTAH) Facts and Figures. Available at [<http://www.un.org/Depts/dpko/missions/minustah/facts.html>], accessed May 18, 2006.

³² "EUA Tem Novo Rival Real Na America Latina," *Folha de São Paulo*, February 19, 2006; Andres Oppenheimer, "Brazil May Be Overplaying Hand as South American Superpower," *Miami Herald*, May 8, 2005.

(especially in the Tri-Border region of Brazil, Argentina, and Paraguay), and combating narcotics, arms, and human trafficking.³³

Current bilateral relations between the countries are characterized as warm and friendly, despite the differing political approaches of President Lula and President Bush on some issues, and have been strengthened by a number of high-level visits during the past three years. On June 20, 2003, President Lula made an official visit to the United States, and he and President Bush resolved “to create a closer and qualitatively stronger [bilateral] relationship.” The Presidents agreed to enhance cooperation in science and nuclear energy; to jointly promote HIV/AIDS treatment in the Portuguese-speaking African countries of Mozambique and Angola; and to establish an energy partnership for cooperation on alternative energy sources.

This early commitment to bilateral cooperation was strengthened by a number of high-level visits by U.S. officials to Brazil that took place in 2005, including those of Secretary of Defense Rumsfeld, Secretary of State Rice, and Secretary of the Treasury Snow. On November 6, 2005, President Bush visited Brasília on his return from the Summit of the Americas in Argentina, and the two leaders reaffirmed the good relations between the countries and pledged to work together to advance peace, democracy, and a successful conclusion of the Doha round of global trade talks. President Bush thanked Brazil for exercising leadership in the world and in the hemisphere, including Brazil’s role in the peacekeeping force in Haiti, and worldwide efforts to control HIV/AIDS.³⁴

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. The FY2006 estimated allocation for Brazil was \$18.12 million, the FY2007 request is for \$19.2 million. Brazil has not concluded an Article 98 Agreement with the United States exempting U.S. personnel operating in Brazil from the jurisdiction of the International Criminal Court. Brazil is therefore subject to sanctions on U.S. military assistance, which is mandated by the American Servicemembers’ Protection Act (P.L. 107-206, Title II). Brazil could lose \$50,000 in military training assistance in FY2006 and FY2007 if it does not conclude an Article 98 agreement or receive a waiver from the Bush Administration.³⁵

³³ Peter Hakim, “The Reluctant Partner,” *Foreign Affairs*, Jan/Feb 2004; Carlos Eduardo Lins, “La Casa Blanca y El Planalto: Respeto y Solidaridad,” *Foreign Affairs En Español*, January-March 2003.

³⁴ See “President Bush Meets with President Lula of Brazil” and “Joint Statement on the Visit by President George W. Bush to Brazil,” November 6, 2005, on the White House website.

³⁵ For more information, see CRS Report RL33337, *Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America*, by Clare M. Ribando.

Selected Issues in U.S.- Brazil Relations

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

Counter-Narcotics and Counter-Terrorism

Brazil is not a significant drug producing country, but is a major conduit for the transit of cocaine, marijuana, and some heroin from neighboring Andean countries destined primarily for Europe, the United States, and local markets. It is also the second largest consumer (after the United States) of cocaine in the western hemisphere. The Bush Administration includes Brazil on a list of major drug-producing or drug-transit countries.³⁶ In FY2006 Brazil received an estimated \$5.9 million in U.S. counter-narcotics assistance through the Andean Counterdrug Initiative (ACI). FY2007 ACI funds requested for Brazil total \$4 million mainly for interdiction and law enforcement activities.

In recent years, Brazil has cooperated extensively with neighboring countries in counter-narcotics activities, adopted a new strategy against money laundering, and implemented a law permitting the shooting down of civilian aircraft (with adequate safeguards) suspected of being engaged in the trafficking of illicit narcotics. Brazil has also constructed a \$1.4 billion sensor and radar project called the Amazon Vigilance System (SIVAM from its acronym in Portuguese) in an attempt to control illicit activity in its Amazon region. Brazil has offered to share data from this system with neighboring countries and the United States. In 2005, Brazil's federal police, which generally are responsible for about 75% of total Brazilian drug seizures and detentions, captured 15.8 metric tons of cocaine and 126 kilograms of crack cocaine.³⁷ In May 2006, Brazilian police, participating in a coordinated law enforcement effort run by the U.S. Drug Enforcement Administration, arrested a major Colombian-born drug trafficker accused of smuggling more than 70 tons of cocaine to the United States. These seizures and arrests are likely to increase as Brazil expands its cooperation with neighboring countries by establishing joint intelligence centers, including one soon to open on the Brazilian/Bolivian border.

The U.S. State Department's Country Report on Terrorism covering 2005 notes that Brazil "continues to improve its counterterrorism capabilities." The United States is working with Brazilian officials to combat money laundering and arms trafficking. These efforts include increasing penalties for terrorist financing, particularly in the Tri-Border region of Brazil, Paraguay, and Argentina.³⁸ U.S.

³⁶ "Bush Cites 20 Nations as Major Drug-Transit/Producer Countries," September 15, 2005, U.S. Department of State, Washington File, [<http://usinfo.state.gov>].

³⁷ U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006.

³⁸ For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

Homeland Security officials will also soon be helping Brazilian law enforcement officials set up special units to investigate and prosecute a variety of financial crimes.

Energy Security

In recent months, there has been significant congressional interest in issues related to energy security. On March 2, 2006, the House International Relations Committee held a subcommittee hearing on energy security in the Western Hemisphere. Brazil was mentioned as a country that has successfully reduced its reliance on foreign oil by using alternative energies (such as ethanol) to satisfy its energy needs. Brazil has also recently attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program.

Ethanol Production. In the past year, as oil and gas prices have risen dramatically, there has been increasing attention in the United States on the importance of decreasing dependence on foreign oil. 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 alternative energy sources, including ethanol. Brazil is currently the world's largest consumer and producer of ethanol from sugarcane. Its sugar-based ethanol is considered more efficient than corn-based derivatives developed in the United States.

Brazil's ethanol program began in 1975 but did not become competitive with gasoline until very recently. For decades, before ethanol became competitive with gasoline, the Brazilian government spent billions of dollars on subsidies and tax incentives to keep the struggling ethanol industry afloat. Now, ethanol supplies some 40% of the motor fuel used in Brazil and is extremely competitive with gasoline. Ethanol use has accelerated since 2003, when automakers introduced "flex fuel" motors in Brazil designed to run on ethanol, gasoline, or a mixture of the two. In 2005, flex-fuel vehicles represented more than 50% of new cars sold in Brazil.³⁹

Brazil's experience with ethanol has not been without its share of problems, however. For instance, Brazil has at times had to import large amounts of ethanol when its sugarcane crop has been damaged by drought or simply fallen short of rising demand. In addition, the expansion of sugarcane production has occurred in areas previously used for cattle ranching and accompanying meat production, another important Brazilian export. Finally, human rights groups argue that the increasing demand for sugarcane has put undo pressure on the peasants forced to harvest the sugar under extremely difficult working conditions.⁴⁰

Fuel ethanol consumption in the United States has grown significantly in the past several years, and it will likely continue to grow with the establishment of renewable fuel standards in the Energy Policy Act of 2005 (P.L. 109-58). This standard requires U.S. gasoline to contain a minimum amount of renewable fuel, including ethanol. Many observers predict that the United States will have to

³⁹ See David Sandalow, "Ethanol: Lessons from Brazil," *Brookings Institution*, May 2006.

⁴⁰ "With Big Boost From Sugar Cane, Brazil is Satisfying Its Fuel Needs," *New York Times*, April 10, 2006.

increase, perhaps by double, its imports of foreign ethanol in 2006 as U.S. oil refiners switch from methyl tertiary butyl ether (MTBE), a water pollutant and possible carcinogen, to ethanol as a component of U.S. gasoline.⁴¹

The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.⁴² Some Brazilian ethanol is processed at plants in the Caribbean for duty-free entry into the United States, but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff.

In the 109th Congress, legislation has been introduced that would eliminate the these two taxes on foreign ethanol: H.R. 5170 (Shadegg) and S. 2760 (Feinstein), the Ethanol Tax Relief Act of 2006. Senate Finance Committee Chairman Charles Grassley and other Members of Congress have openly opposed those proposals.⁴³

Nuclear Energy. Between World War II and the mid-1980s, Brazil sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. In 1991, Brazil and Argentina reached an agreement to use nuclear energy for peaceful purposes only, although one scientist has recently asserted that the Brazilian military continued nuclear weapons efforts into the early 1990s.⁴⁴ Brazil joined the Nuclear Nonproliferation Treaty (NPT) in 1998 and since then has participated in several multilateral nonproliferation regimes, including the Missile Technology Control Regime and the Nuclear Suppliers Group (NSG). It is also a party to the Treaty of Tlatelolco, which establishes Latin America as a nuclear-weapon-free zone. Brazil chaired the May 2006 NSG plenary at which the United States tried to convince other NSG members to adopt an exception to the NSG guidelines to allow increased U.S.-Indian nuclear cooperation.

Despite its nonproliferation credentials, some international observers were concerned when Brazil commissioned a uranium enrichment plant in 2004 to be located at the Resende nuclear facility outside Rio de Janeiro. Uranium enrichment can be used for peaceful purposes (such as fuel for nuclear power plants) or for military purposes (nuclear weapons). In 2005, Brazilian officials refused to give International Atomic Energy Agency (IAEA) inspectors full access to the centrifuge plant, citing security concerns and proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.⁴⁵

⁴¹ "Commodities Corner: The Rush for Ethanol," *Barron's*, May 1, 2006.

⁴² For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative*, by Brent D. Yacobucci.

⁴³ "Ethanol Tariffs Defended as U.S. Producers Fear High Fuel Price Blame," *Inside U.S. Trade*, April 21, 2006.

⁴⁴ "Brazil Nearly Built Bomb in 1990s, Scientist Says," *Associated Press*, August 30, 2005.

⁴⁵ "New Round of Nuclear Enrichment Scare Stories," *Latin American Weekly Report*, (continued...)

Brazil is now the ninth country in the world capable of enriching uranium to generate energy. Brazil's reluctance to allow international inspectors to fully inspect the Resende facility has caused some observers to wonder whether Brazil's "new enrichment capability ... suggests South America's biggest country may be rethinking its commitment to non-proliferation."⁴⁶ Some observers have called for Brazil to abandon its uranium enrichment plans in order to counter such concerns. The Bush Administration, however, considers Brazil to have a fully operational nuclear enrichment capability and should not be required to abandon its uranium enrichment projects.⁴⁷ Brazilian officials have rejected the notion that Brazil should be treated like Iran and prohibited from owning sensitive nuclear technology.

Trade Issues

Trade issues are central to the bilateral relationship between Brazil and the United States, with both countries being heavily involved in subregional, regional, and global trade talks. Brazil has sought to strengthen Mercosul and to establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosul-European Union free trade agreement and to advance the global trade talks through the Doha Development Round. The United States has been actively involved in the Doha negotiations and has pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA), while simultaneously undertaking a series of bilateral or subregional agreements with many hemispheric countries.

World Trade Organization (WTO) Negotiations.⁴⁸ The WTO Doha round talks were revived in 2004 after stalling in September 2003 in Cancun, Mexico, when Brazil led the G-20 group of developing countries that insisted that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, and negotiators worked throughout the year to achieve preliminary agreements by the Sixth WTO Ministerial Conference in mid-December 2005 in Hong Kong. For most observers, the Hong Kong Conference produced a mixed bag with modest results. In a result that was disappointing to Brazil, the ministers, bowing to the demands of the European Union, delayed the elimination of agricultural export subsidies until 2013 (not 2010), although subsidies for cotton were to be eliminated by 2006. In a result that was disappointing to the

⁴⁵ (...continued)
February 12, 2006.

⁴⁶ "Brazil's Enrichment Program Overshadowed by Iran's: Could Produce Nuclear Weapons," *Montreal Gazette*, April 24, 2006.

⁴⁷ 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.

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

United States, formulas for reducing tariff barriers in the manufactured goods and service sectors were largely postponed.⁴⁹

Deadlines were established in Hong Kong for concluding negotiations by the end of 2006. Agreements on modalities for agriculture and non-agriculture market access (NAMA) were due by April 2006. Further deadlines set for July 31, 2006, include the submission of tariff schedules for agriculture and NAMA, the submission of revised services offers, the submission of a consolidated text on rules and trade facilitation, and for recommendations to implement the “aid for trade” language in the Hong Kong declaration. On April 21, 2006, WTO Director-General Pascal Lamy announced there was no consensus for agreements on modalities by the April 30 deadline. Instead, he committed to six weeks of continuous talks to reach an agreement. It is commonly assumed that even if the talks were moving forward in reaching their deadlines, it would take many months to develop a final schedule of concessions and to verify the schedules of others.

Free Trade Area of the Americas (FTAA). In 1994, 34 countries in the Western Hemisphere announced a plan for creating a Free Trade Area of the Americas (FTAA) at the first Summit of the Americas. Twelve years later, the FTAA has yet to be established, and negotiations for its creation have been put off indefinitely, primarily due to differences of opinion between the United States and Brazil, co-chairs of the FTAA Trade Negotiation Committee.⁵⁰

Brazil asserts that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties, while the United States emphasizes investment and intellectual property rights and argues that agricultural subsidy issues should be resolved in the Doha round of WTO talks. Disagreements on the terms of the FTAA came to a head in the November 2003 Ministerial Meeting in Miami, Florida, where the parties finally agreed on a formula called by some an “FTAA light.” Under the formula, all of the countries would agree to a set of core obligations, while countries which favored a more ambitious agreement would negotiate plurilateral agreements. When the Trade Negotiations Committee (TNC) met in Puebla, Mexico, in early February 2004, the delegates were unable to agree on the FTAA common obligations, and continuing disagreements between the co-chairs, and involvement in other negotiations have prevented further meetings. A U.S. effort, in early November 2005 at the fourth Summit of the Americas in Mar del Plata, Argentina, to set a date for new FTAA negotiations was resisted by Venezuela and Mercosul countries, who argued that such talks should be put off until progress is made on agricultural subsidy issues in the global WTO Doha round talks.

Trade Disputes. Brazil won a WTO dispute settlement case against U.S. cotton subsidies in September 2004, which the United States appealed, but Brazil’s position was reaffirmed by the WTO appellate body in March 2005. In keeping with

⁴⁹ See “WTO Ministerial Agrees on Setting Course for Final Stage of Talks; Some Disappointed,” *International Trade Reporter*, December 22, 2005.

⁵⁰ For more information, see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J.F. Hornbeck.

the requirement that the United States modify its policies or negotiate a mutually satisfactory settlement with Brazil, the Bush Administration in early July 2005 asked Congress to modify the cotton subsidy program and Brazil agreed to temporarily suspend retaliatory action.⁵¹

Human Rights

The U.S. State Department's Country Report on Human Rights on Brazil covering 2005 states that while "the federal government generally respected human rights of its citizens...there continued to be numerous, serious abuses, and the record of several state governments was poor." Three human rights issues of particular concern include crime and human rights abuses by police in Brazil, race and discrimination, and trafficking in persons.

Violent Crime and Human Rights Abuses by Police. The related problems of urban crime and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are viewed by some as undermining democratic governance and citizen's sense of security in Brazil. Five Brazilian cities are among the fifteen cities in Latin America, the world's most violent region, with the highest murder rates.⁵² Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. In addition to rising crime rates, human rights groups have identified extrajudicial killings by police and prison authorities as Brazil's most pressing human rights problem.⁵³ In the first nine months of 2005, authorities reported that São Paulo state police killed 263 civilians compared to 322 in 2004, while Rio de Janeiro police killed 584 civilians in the first eight months of 2005 as compared to 983 in 2004. Amnesty International estimates that police in those two states continue to kill some 2,000 persons annually.⁵⁴ On March 31, 2005, police were linked to a massacre in Rio de Janeiro that claimed 30 civilian lives, the worst incident of its kind in the city since 1993. Prison conditions range from "poor to extremely harsh and life threatening,"⁵⁵ and the countrywide prison system, which housed more than 361,000 inmates in 2005, had an accommodation deficit of some 90,360.⁵⁶

⁵¹ See "USDA Calls for Repeal of Cotton Subsidy to Achieve WTO Compliance," *Inside U.S. Trade*, July 8, 2005. For more information, see CRS Report RL32571, *Background on the U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

⁵² William C. Prillaman, "Crime, Democracy, and Development in Latin America," *Center for Strategic and International Studies*, June 2003.

⁵³ Human Rights Watch, "Brazil: World Report 2006," January 2006. Available at [<http://www.hrw.org/wr2k6/>].

⁵⁴ U.S. Department of State, *Country Reports on Human Rights Practices 2005: Brazil*, February 2006.

⁵⁵ *Ibid.*

⁵⁶ "Brazil: Battle of São Paulo Leaves a Disquieting Balance," *Latin American Weekly Report*, May 23, 2006.

These weaknesses in Brazil's criminal justice system became apparent in mid-May 2006 as street combat and rioting organized by a prison-based gang network, the First Capital Command, paralyzed the city of São Paulo for several days. Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths, including "110 'bandits' killed by the police, 42 law enforcement officials, 18 jailed criminals, and 16 civilians."⁵⁷ Although state officials have denied that negotiations occurred, Brazilian press accounts reported that the violence did not end until a high-level truce was reached between state officials and gang leaders. Brazilian police, which initially refused to release the names of those killed by security forces, have been widely criticized for the brutal manner in which they responded to the gang violence.

President Lula has not launched a major anti-crime initiative, but has taken some steps to combat police brutality in Brazil. In June 2004, the Brazilian government created a free hotline for citizens to report police and labor abuses. At that time, the Special Secretary for Human Rights also reported that Brazil would strive to transfer jurisdiction over human rights abuses committed by police from state to federal courts, which are less vulnerable to coercion by local authorities; reduce firearms sales; and give police officers more extensive human rights training.⁵⁸ Aside from periodically sending federal troops to back up state and local forces at their request, federal officials have tended not to intervene in cases of alleged human rights violations by state authorities. In response to the May riots in São Paulo, the Brazilian Senate has recently passed 11 emergency measures to combat violent crime and improve prison security. The measures are currently being debated in Brazil's Chamber of Deputies. Crime and law enforcement reform are likely to become major issues in the country's upcoming elections.

Race and Discrimination.⁵⁹ People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.⁶⁰ During the Cardoso administration, the Brazilian government began to collect better official statistics on Afro-Brazilians. These statistics found significant education, health, and wage disparities between Afro-Brazilians and Brazil's general population. Successive State Department Human Rights Reports covering Brazil in the late 1990s also reported frequent discrimination against Afro-Brazilians, including abuse by police officials, and a limited access to justice. These findings and other evidence challenged the notion

⁵⁷ "Police are Criticized in Wave of Gang Violence in Brazil," *New York Times*, May 30, 2006.

⁵⁸ "Brazil: New Rights Hotline Set Up to Fight Police and Labor Abuses," *Inter Press Service*, June 22, 2004.

⁵⁹ For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando.

⁶⁰ Ricard Henriques, "Desigualdade racial no Brasil," Brasília: Instituto de Pesquisa Econômica Aplicada (IPEA), 2001

that Brazil was a “racial democracy,”⁶¹ and confirmed the perception that specific public policies were needed to improve the socioeconomic status of Afro-Brazilians.

Brazil now has the most extensive anti-discrimination legislation geared towards Afro-descendants of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas in order to increase minority representation in government service. Since 2002, several state universities in Brazil have enacted quotas setting aside admission slots for black students. Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.⁶² In 2003, Brazil became the first country in the world to establish a Special Secretariat with a ministerial rank to manage Racial Equity Promotion Policies. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that most universities have preferred not to implement quota systems, and that the Special Secretariat lacks the funding, staff, and clout necessary to advance its initiatives.⁶³ Despite these limitations, Brazil has also stepped forward to take a leadership role in advancing issues of race and discrimination within the Organization of American States and is leading the drafting of an Inter-American Convention for the Prevention of Racism and All Forms of Discrimination and Intolerance.

Five years ago the term “Afro-Latino” was relatively uncommon. Today the U.S. government, spurred by multilateral organizations, NGOs, and some Members of Congress, is playing an active role in supporting Afro-Latinos in Latin America through both bilateral and multilateral assistance programs. U.S. and other regional officials are now looking to Brazil as an example of how to address the related issues of race and discrimination.

Trafficking in Persons.⁶⁴ Brazil is a source, transit, and destination country for people, especially women and children, trafficked for forced labor or sexual exploitation. In the 2005 State Department *Trafficking in Persons* report, Brazil was listed as a Tier 2 country. Tier 2 consists of the countries the State Department identifies as not fully complying with adequate standards for dealing with trafficking in persons, but making “significant efforts to bring themselves into compliance.” In 2006, Brazil’s ranking fell to the Tier 2 Watch List and the Brazilian government was

⁶¹ Racial democracy attributes the different conditions under which blacks and whites or mestizos live in Latin America to class differences, not racial discrimination. See Robert J. Cottrol, “The Long Lingered Shadow,” *Tulane Law Review*, 2001.

⁶² Livio Sansone, “Anti-Racism in Brazil,” *NACLA Report on the Americas*, September 1, 2004.

⁶³ Dayanne Mikevis and Matthew Flynn, “Brazil’s Civil Rights Activists Achieving Overdue Policy Reform,” *Citizen Action in the Americas*, No. 17, April 2005.

⁶⁴ For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare M. Ribando.

cited for making only limited progress in bringing traffickers to justice and for failing to apply effective penalties for those who exploit forced labor.⁶⁵

Brazil has been working closely with U.S. officials and representatives from several different international organizations to improve its anti-trafficking programs. In July 2004, President Bush announced that Brazil was one of eight countries selected to receive \$50 million in strategic anti-trafficking-in-persons assistance. Some \$8.2 million in funds have been approved by the Senior Policy Operating Group (SPOG) on trafficking for Brazil. These funds will support programs to prevent labor trafficking in the Southern Amazon; shelters for sex tourism victims in Rio de Janeiro, Recife, and São Paulo; reintegration and border shelters in the Tri-border region (Brazil, Paraguay, and Argentina); and strengthening mobile law-enforcement teams to fight forced labor in the interior, as well as training judges and prosecutors. The funds are also supporting public awareness campaigns to deter American and other foreign travelers from engaging in child sex tourism in Brazil.

In FY2005, U.S. support helped the Brazilian government provide a variety of legal and social services to more than 1,000 trafficking victims. In addition, more than 6,530 government and NGO representatives received training on how to improve assistance to trafficking victims. Finally, Brazil, with USAID support, revised its penal code to make internal and transborder trafficking for commercial sexual exploitation federal crimes with similar penalties, and eliminated language that made the previous law applicable strictly to cases involving female victims. The legislative changes did not include provisions addressing trafficking for forced labor, which is also a major problem in Brazil. Brazilian collaboration with police forces from other countries led to busts of several trafficking rings that sent Brazilians to Italy, Switzerland, and the United States.

HIV/AIDS

Successive governments in Brazil have made the fight against the spread of HIV/AIDS a national priority. In 1985, Brazil's national AIDS program began within the context of the country's transition to democracy as a result of activism from Brazilian civil society. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral (ART) drugs on a limited basis by 1991, and then to all people living with the disease by 1996. Currently some 150,000 Brazilians have access to free generic versions of ART drugs, many of which are locally produced and financed by the Brazilian government.⁶⁶ The incidence of HIV/AIDS in Brazil has stabilized since 1997, and universal free access to ART has increased average survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996.⁶⁷ HIV prevalence is under 1% for the general

⁶⁵ U.S. Department of State, *Trafficking in Persons Report, 2006*, June 5, 2006, [<http://www.state.gov/g/tip/rls/tiprpt/2006/65983.htm>].

⁶⁶ United Nations Programme on HIV/AIDS, 2005, available at [<http://www.unaids.org>].

⁶⁷ Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

population in Brazil, so most government prevention efforts are now targeted at high-risk groups where prevalence rates are still above 5%.

Brazil's decision to develop generic ART drugs to treat HIV/AIDS under the compulsory licensing provision of its patent law led to a subsequent 80% drop in the cost of treatment there. That decision also brought Brazil into conflict with the United States and the international pharmaceutical industry. In May 2001, the United States submitted a complaint to the WTO, which was later withdrawn, that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and prevented companies from developing new products there. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In August 2003, a WTO decision temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria) under compulsory licensing agreements. That temporary waiver became permanent in late 2005.⁶⁸ Brazil currently manufactures ART drugs both for domestic consumption and for export to several African countries.

Brazil and the United States have also disagreed as to whether prostitutes should be enlisted to help combat the spread of HIV/AIDS. In 2003, Congress passed an amendment to H.R. 1298 (P.L. 108-25), which authorizes the President's Emergency Plan for AIDS Relief (PEPFAR), prohibiting U.S. funds from being distributed to any group or organization that does not have a policy "explicitly opposing prostitution and sex trafficking." Brazil has rejected U.S. support for its HIV/AIDS programs because it is opposed to the new restrictions. That decision could cost Brazil some \$48 million in USAID funding for HIV/AIDS programs.⁶⁹

Environmental Concerns

Amazon Deforestation. The Amazon Basin contains over half of the world's remaining tropical rainforests and is the most biodiverse tract of tropical rainforest in the world. Some 22% of the world's known plant species exist in Brazil and 20% of the world's fresh water lies in the Amazon basin. The Amazon is also thought to be home to one third of all species in the world, including some 2.5 million types of insects, and 2,000 types of birds and mammals. Further, the Amazon rainforest is a sink for global carbon dioxide, and is considered by many to be an important asset in moderating climate change. Proper management of Brazil's portion of the Amazon rainforest holds global significance and is a top concern of Brazil, the United States, and the international community.

Throughout the last forty years, the Brazilian Amazon has been increasingly deforested for development that includes roads, settlements, logging, subsistence and commercial agriculture, as well as cattle ranching. In 1960, the Amazon was largely

⁶⁸ Mary Anastasia O'Grady, *Wall Street Journal*, December 16, 2005.

⁶⁹ Monte Reel, "Where Prostitutes Also Fight AIDS," *Washington Post*, March 2, 2006.

undeveloped, but today approximately 15%-20% of the rainforest has been deforested. Deforestation threatens the biodiversity of the Amazon region and is a concern for climate change. In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.⁷⁰ Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal. Deforestation rates, which have been fueled by increases in cattle ranching, soybean farming, and road building, spiked in 2002 and 2004 (reaching the second-highest level ever) before declining by 32% in 2005.⁷¹

The Brazilian government attributes the recent decline in the deforestation rate to its creation of new conservation areas and stricter enforcement of environmental regulations. The Lula government created some 7 million hectares of new conservation reserves in 2004 and 2005. It also launched a special operation to combat deforestation and illegal logging that resulted in the arrest of more than 100 people between June 2005 and January 2006. In March 2006, President Lula signed the Public Forest Management Law that aims to decrease illegal logging by allowing companies access to 3% of the Amazon on the condition that they carry out sustainable operations. Although some environmental groups have praised this progress, others fear that it may be too little too late. Further, some believe that continued road building in the Amazon will drive deforestation rates higher because of easier access to undisturbed forests and reserves. Skeptics assert that the declining deforestation rate in 2005 was a fluke resulting from a temporary decline in farming that occurred as a result of adverse weather conditions and declining commodity prices rather than the positive result of concerted government efforts.

In order to combat further deforestation, most observers agree that cooperative efforts will have to be made between the Brazilian government, private companies, landowners, and the international community (including the United States). These efforts might include funding to pay farmers not to exploit the environment, conservation projects, and environmental certification of commodities such as beef, timber, and soybeans. Coordinated efforts could significantly reduce carbon emissions and the loss of Amazon diversity that is otherwise likely to occur.⁷²

⁷⁰ David Kaimowitz, "Amazon Deforestation Revisited," *Latin American Research Review*, 2002: 37, 2.

⁷¹ Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate their existing lands. After agriculture, pastures grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning (either accidental or induced) will alter the ecosystem sufficiently that forests cannot regenerate.

⁷² Soares-Filho et al., "Modelling Conservation in the Amazon Basin," *Nature*, March 2006.

USAID environment programs directly support the U.S.-Brazil Common Agenda for the Environment. USAID environment programs seek to promote proper land-use trends over large geographic areas while encouraging environmentally-friendly income generation activities for the rural poor. The FY2005 allocation for USAID environmental programs in Brazil was \$6.1 million, whereas the FY2006 estimated allocation fell to \$5.1 million. USAID also initiated the Amazon Basin Conservation Initiative in FY2006. From FY2006-FY2011, USAID plans to make an initial investment of US \$50 million to support community groups, governments, and public and private organizations in their efforts to conserve the Amazon's globally important biodiversity.⁷³ For FY2006, \$10 million was appropriated for this program.

Land Conflicts. A related development challenge for Brazil that has caught the attention of both environmentalists and human rights groups in the United States has been how to allow the country's agribusinesses to expand while simultaneously protecting the environment and providing land to millions of landless peasants. In Brazil, 1% of the population controls 45% of the farmland. While close to half of Brazil's fertile land is used for cattle ranching, nearly one third lies uncultivated.⁷⁴ In the 1980s, landless rural workers in the south of Brazil began to organize in order to demand land redistribution. By 2004, the most powerful landless organization, the Landless Workers' Movement (MST), claimed some 1.5 million affiliates nationwide and was capable of skillfully organizing mass demonstrations and land invasions to pressure the Brazilian government to fulfill its promises of land distribution. As the MST became more mobilized throughout the 1990s, land disputes between loggers, ranchers, and peasants increased, and dealing with land reform and land invasions became a major challenge for the Cardoso government.⁷⁵

In 2002, partially because of overlapping membership and good relations at the local level between MST and PT leaders, landless leaders backed the Lula da Silva presidential campaign in hopes that he would pursue more effective agrarian reform policies than President Cardoso did. In fact, during his first two years in office, President Lula da Silva spent 24% less on land reform than the Cardoso administration had in the previous two years. By early 2006, the Lula administration had distributed land to some 245,000 families, just over half the number of families he vowed to reach over his four-year term, which ends in January 2007. Recent Brazilian government statistics indicate that the number of peasants waiting in temporary camps to be resettled has increased from 60,000 in 2003 to 230,000 in 2006. At the same time, the number of land conflicts between peasants, farmers, and

⁷³ See [http://www.usaid.gov/locations/latin_america_caribbean/environment/abci.html] for more information, accessed May 9, 2006.

⁷⁴ "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

⁷⁵ Miguel Carter, "The Landless Workers' Movement (MST) and Democracy in Brazil," *Center for Brazilian Studies, University of Oxford*, 2005.

land speculators rose to almost 1,900 in 2005, twice the 925 recorded in 2002. Some 38 people were thought to be murdered in 2005 as a result of struggles over land.⁷⁶

According to the Catholic Church's Pastoral Land Commission (PLC), Pará, a rural state in the isolated Amazon region, has long been at the epicenter of land disputes between peasants, farmers, and land speculators. Some 40% of the 1,237 land-related killings in Brazil between 1985 and 2001 took place there. The February 2005 murder in Pará of U.S. missionary and landless activist, Dorothy Stang, brought increasing national and international attention to Brazil's land distribution problem.⁷⁷ The recent conviction of a third suspect in connection with Sister Stang's death has led some observers to hope that more perpetrators of land-related crimes in Pará may finally be brought to justice. Some 750 land activists have died there in the last 30 years, but only nine killers have been convicted for those deaths.⁷⁸ Some assert that Sister Stang's death incited the Brazilian government to enact several aggressive measures that resulted in recent reductions in Amazon deforestation in Brazil. International environmental groups and human rights organizations have increased scrutiny on the Lula government's handling of the related problems of promoting sustainable development in the Amazon and providing land to the country's thousands of landless peasants.

⁷⁶ "Brazilians Wonder: Where's the Reform?" *Christian Science Monitor*, March 22, 2006; "Number of Landless Waiting for Resettlement Increases," *Latinnews Daily*, May 30, 2006; "Rural Violence at Record Levels in Brazil," *BBC Monitoring Americas*, April 20, 2006.

⁷⁷ "Brazil: A Nun's Murder Triggers Action Against Landgrabbers," *Latin News Weekly Report*, February 22, 2005; "Human Rights Violations in the Amazon: Conflict and Violence in the State of Pará," *Commissão Pastoral da Terra, Global Justice, and Terra de Direitos*, November 2005.

⁷⁸ "Third Man Jailed for U.S. Nun Death," *BBC News Online*, April 27, 2006.

Figure 1. Map of Brazil



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