



Brazil-U.S. Relations

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Summary

On January 1, 2007, Luis Inácio Lula da Silva, of the leftist Workers' Party (PT), was inaugurated to a second four-year term as President of Brazil. Lula was re-elected in the second round of voting with fairly broad popular support. His immediate tasks were to boost Brazil's lagging economic growth and address the issues of crime, violence, and poverty. Despite President Lula's significant personal popularity, occasional corruption scandals and inter-party rivalries within his governing coalition have made it difficult to advance his agenda through Brazil's fractured legislature. Lula's top priority for 2010 is legislative approval of a new regulatory framework that will increase the state's role in the exploitation of Brazil's considerable offshore oil reserves. A presidential election to choose Lula's successor is scheduled to be held in October 2010.

President Lula has benefitted from a strong economy throughout most of his second term. The global financial crisis, however, slowed Brazil's economic growth and threatened to erase some of the social gains made in recent years. President Lula implemented a number of countercyclical policies to boost the economy and protect those most exposed to the effects of the economic downturn. These actions appear to have been reasonably successful, as the Brazilian economy was one of the first to recover from the global crisis and analysts now expect Brazil to experience significant growth in 2010.

During the first Lula term, Brazil's relations with the United States were generally positive despite the fact that President Lula prioritized strengthening relations with neighboring countries and expanding ties with nontraditional partners, including India and China. Brazil-U.S. cooperation has increased during President Lula's second term, particularly on energy issues. Two presidential visits in March 2007 culminated in the signing of the Memorandum of Understanding (MOU) Between the United States and Brazil to Advance Cooperation on Biofuels; the agreement was expanded in November 2008. President Obama has made strengthening U.S.-Brazilian relations an important part of his policy toward Latin America. Although several differences between the countries have emerged in recent months, Brazil-U.S. relations remain friendly.

Members of Congress demonstrated considerable interest in Brazil during the first session of the 111th Congress. Members expressed particular concern over an international custody case involving Brazil. Both houses passed resolutions (H.Res. 125 and S.Res. 37) calling on Brazil to comply with the requirements of the Convention on the Civil Aspects of International Child Abduction, and another measure (H.R. 2702, C. Smith) was introduced in the House, which would suspend the Generalized System of Preferences for Brazil until the country meets its Convention obligations. Several other initiatives relating to Brazil also were introduced in the first session of the 111th Congress: S.Res. 74 (Lugar) would recognize the importance of the U.S.-Brazil partnership and call on the U.S. Treasury Secretary to pursue negotiations concerning a bilateral tax treaty; S. 587 (Lugar) would provide \$6 million to expand U.S.-Brazil biofuels cooperation in FY2010; and S. 2044 (Menendez) would provide for re-liquidation of entries relating to certain Brazilian orange juice imports.

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.

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Political and Economic Background

Brazil is considered a significant political and economic power in Latin America, and an emerging 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. 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. Its 191 million citizens are primarily of European, African, or mixed African and European descent.¹ With a gross national income (GNI) of \$1.4 trillion in 2008, Brazil's diversified economy is the tenth largest in the world, the largest in Latin America, and one of the largest in the developing world. Per capita GNI is only \$7,350, however, and the country has an unequal income distribution.²

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. Brazil's military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in 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 government of Fernando Henrique Cardoso (1994-2002).³

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 leftist Worker's Party (PT).⁴ Cardoso's election was largely a result of the success of the anti-inflation "Real Plan" that he implemented as Finance Minister. During his first term, Cardoso achieved macroeconomic stability, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Despite these policy victories, Cardoso was unable to enact other political and social changes, such as social security, tax, or judicial reforms. A 1997 constitutional change allowed President Cardoso to run reelection, and he once again defeated Lula in October 1998. President Cardoso experienced a considerable decline in popularity during his second term, however, as

¹ Brazil has never had a large indigenous population. Today, Brazil's indigenous population consists of roughly 460,000 persons, many of whom reside in the Amazon. U.S. Department of State, *Country Reports on Human Rights Practices 2007: Brazil*, March 2008.

² World Bank, World Development Report, 2010.

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.

⁴ In recent years, the PSDB has become ideologically centrist while the PT has move to the center-left. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

Brazil faced a series of financial crises. Most analysts credit Cardoso with restoring macroeconomic stability to Brazil's economy and solidifying its role as leader of the Common Market of the South (Mercosur),⁵ but fault him for failing to implement more aggressive political and social reforms.⁶

Political Situation

The First Lula Administration

In 2002, Lula—a former metalworker and union leader who had led the Worker's Party (PT) since the early 1980s—ran in his fourth campaign for the presidency of Brazil. Although he continued to advocate for greater social justice, Lula moderated his leftist rhetoric and promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. The election proved to be a referendum on Cardoso's eight years in power. High unemployment rates and economic stagnation led voters to reject Cardoso's designated successor, Minister of Health José Serra, and support Lula.

During his first term, President Lula largely maintained the market-oriented economic policies associated with his predecessor, while placing a greater emphasis on addressing social problems. In 2003, the Lula government enacted social security and tax reforms, and committed to a primary budget surplus of 4.25% of GDP. Likewise, Lula implemented a law to allow more private investment in public infrastructure projects in 2004. Although the Lula Administration tightly controlled expenditures, it also reorganized and expanded some of the social programs initiated under Cardoso. One conditional cash transfer program, known as *Bolsa Familia* (Family Stipend), has provided monthly stipends to some 11.4 million poor families in exchange for compulsory school attendance for all school-age children. Supporters of the program credit it with reducing poverty and weakening the clientelist links between the poor and some local politicians. Critics argue that it has made poor households too dependent on government services.⁷

Despite these initial legislative victories, Lula's agenda stalled toward the end of his first term. Some left-leaning Brazilians criticized Lula for maintaining the orthodox economic policies of the Cardoso Administration and failing to do more to address social issues such as income inequality and land distribution. Criticism of Lula became more widespread with the onset of several corruption scandals involving top PT officials, although a congressional inquiry cleared President Lula of any direct responsibility in April 2006.⁸

⁵ Mercosur is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991. See CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

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.

⁷ Anthony Hall, "From *Fome Zero* to *Bolsa Familia*: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006; Riorden Roett, "How Reform Has Powered Brazil's Rise," *Current History*, February 2010.

⁸ Wendy Hunter, "The Normalization of An Anomaly: The Worker's Party in Brazil," *World Politics*, vol. 59, no. 3, April 2007.

The Second Lula Administration

President Lula defeated the PSDB's Gerardo Alckmin in the second round of presidential elections held in October 2006, capturing 61% of the vote. Lula won handily in the poorer north and northeastern regions of the country, but failed to carry the more prosperous southern and western states or São Paulo. Some observers assessed that Brazilians, though divided by class and region, effectively voted in favor of continuing macroeconomic stability under a second Lula Administration. Others attribute his win to the success of the Bolsa Familia program, which led voters in poorer income brackets to overwhelmingly support him.⁹ Although Lula was able to overcome the PT's corruption scandals, his party did not fare as well. In concurrent legislative elections, the PT suffered a loss of nine seats in the Chamber of Deputies and four seats in the Senate.

Despite his administration enjoying high approval ratings (73% in February 2010)¹⁰ and several years of strong economic growth, President Lula's second term has been periodically hindered by corruption scandals and a lack of support from members of his coalition. Many of President Lula's priorities—including significant tax and political reforms—have stalled in Brazil's Congress, where the PT-allied but ideologically heterogeneous Party of the Brazilian Democratic Movement (PMDB) controls the presidencies of both the Senate and Chamber of Deputies. President Lula has done little to challenge the PMDB since the PT's chances of maintaining the presidency in 2010 are likely dependent on a continued alliance.¹¹ This has also led President Lula to vigorously defend Senate President José Sarney (President of Brazil 1985-1990) of the PMDB against a number of corruption allegations, ranging from nepotism to abuse of public funds.¹²

President Lula's top priority for 2010 is legislative approval of a new regulatory framework that will increase the state's role in the exploitation of Brazil's considerable offshore oil reserves. (For more information, see "Oil" below). Among other provisions, the plan would make state-owned Petrobras the sole operator for all new offshore projects, replace the existing concessionary model with a production sharing regime, guarantee Petrobras a minimum 30% stake in all new joint ventures, create a new public company—Petrosal—for contract administration, and create a new social fund overseen by Congress that will direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.¹³ Although the new regulatory framework is expected to pass, some analysts believe it is unlikely that the Brazilian Congress will act on the rest of President Lula's agenda—such as politically sensitive, long-stalled economic and political reforms—as the parties turn their attention toward the October 2010 presidential and legislative elections.¹⁴

⁹ Matt Moffett and Geraldo Samor, "In Brazil Campaign, A Barroom Brawl and a Class War," *Wall Street Journal*, October 27, 2006; Wendy Hunter and Timothy J. Power, "Rewarding Lula: Executive Power, Social Policy, and the Brazilian Elections of 2006," *Latin American Politics and Society*, Spring 2007.

¹⁰ "Support for Brazil's President Lula Reaches Record – Poll," *Dow Jones*, March 1, 2010.

¹¹ "Power struggle exposes senate wrongdoings," *Latin American Weekly Report*, March 26, 2009; "Brazil: PMDB powerbrokers may hold key in 2010," *Oxford Analytica*, March 30, 2009.

¹² Otávio Cabral, "Os Novos e Bons Companheiros," *Veja*, July 22, 2009.

¹³ "Brazil's Oil Law still awaiting approval," *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

¹⁴ "Country Report: Brazil," *Economist Intelligence Unit*, January 2010.

October 2010 Elections

While some of President Lula's supporters have pushed for a constitutional amendment that would allow him to run for a third term in the October 2010 elections, Lula has stressed the importance of alternation of power, stating unequivocally that "Brazil should not have a third mandate."¹⁵ The top candidates to replace him include former Health Minister and 2002 candidate José Serra of the PSDB and current Minister of the Presidency Dilma Rousseff of the PT. Other possible candidates include Deputy Ciro Gomes of the Brazilian Socialist Party (PSB) and former Lula Administration Environment Minister Marina Silva of the Green Party (PV). Although Serra has been the favorite in early polling, the lesser known Rousseff has begun to close the gap with the enthusiastic support of President Lula.¹⁶ Analysts believe that both Serra and Rousseff would maintain broad policy continuity, although Rousseff is more supportive of a strong state role in the economy than Serra.¹⁷

Economic Conditions

Throughout the last two decades, Brazil's fiscal and monetary policies have focused 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, Brazil began to experience some benefits, including lower inflation and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule and in 2009, Brazil became a net IMF creditor.

Fiscal discipline has been accompanied by record exports. Brazil is a major exporter of agricultural and industrial products and plays a significant role in the world trading system. Since 2002, Brazil has been the world's third-largest exporter of agricultural products after the United States and the European Union. Brazil is a leading exporter of coffee, orange juice, sugar, chicken, beef, soy, and tobacco. Demand for Brazilian commodity exports in Asia is strong, as is global demand for Brazil's manufactured goods and services. Brazil is the world's second-largest producer of ethanol (after the United States), and its state-run oil company, Petrobras, is a leader in deep-water oil drilling. In 2009, the value of Brazil's exports reached some \$153 billion, and the country's trade surplus was over \$25 billion.¹⁸

¹⁵ "Lula speaks out on third term," *Latin News Daily*, June 3, 2009.

¹⁶ David Fleischer, "Brazil Focus Special Report," March 1, 2010.

¹⁷ "Political Economy: The debate begins," *Latin American Regional Report: Brazil & Southern Cone*, February 2010; "Serra waits, a bit too patiently, for the presidency," *The Economist*, February 4, 2010; "Brazil: Rousseff nomination leaves PT divisions open," *Oxford Analytica*, February 19, 2010.

¹⁸ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2010.

Economic Challenges

Slow Growth Rate

One of President Lula's goals for his second term was to boost Brazil's lagging economic growth rate, which averaged just 2.7% between 2000 and 2006. In 2007, President Lula launched the Program to Accelerate Growth (PAC), which aims to increase Brazil's growth rate to 5% per year through public and private investment in infrastructure. The PAC provides tax breaks and incentives to spur investment and includes measures to improve and simplify Brazil's regulatory framework. According to official figures, the PAC has only invested \$225 billion and spent \$143 billion of the \$356 billion programmed for the 2007-2009 period. The private sector accounted for \$49.5 billion (33%) of the spent funds while state companies, the federal government, states and municipalities, and other public sector financing accounted for the rest.¹⁹ Some have praised President Lula for the PAC's investments in much-needed infrastructure projects, however, others have criticized him for increasing public spending and ignoring other factors that hamper economic growth. GDP growth in Brazil reached 6.1% in 2007 and 5.1% in 2008.²⁰

Although the PAC appears to have been somewhat successful, some analysts have identified several factors that could constrain Brazil's long-term growth potential. These include a sizeable public debt burden, significant government spending, high taxes and interest rates, low investment and savings rates, and an unwieldy public pension system that a 2006 report by the Organization for Economic Co-operation and Development (OECD) asserted is a significant obstacle to sustained economic growth.²¹ Despite his popularity, President Lula has thus far not elected to use his political capital to enact the structural reforms needed to address these issues.

Global Financial Crisis

The global financial crisis further complicated President Lula's attempts to accelerate economic growth. The Brazilian economy contracted by 3.4% in the last quarter of 2008 and 1% the first quarter of 2009, before returning to quarter-on-quarter growth in the second quarter of 2009.²² Although the recession was relatively short, export revenues fell by 22.2% and the country's trade surplus fell by 1.4% in 2009.

Brazil took several steps to minimize the impact of the crisis. The government injected at least \$100 billion of additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate.²³ President Lula also acted to maintain domestic consumption in hopes of partially offsetting declines in global demand. The government mandated an above-inflation increase to the minimum wage for 2009, provided temporary tax

¹⁹ Figures based on the March 2, 2010 currency conversion rate of 1 Brazilian Real: 0.5578 U.S. Dollars. "Political Economy: The debate begins," *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

²⁰ "Brazil: Country Profile 2008," *Economist Intelligence Unit*; "Country Report: Brazil," *Economist Intelligence Unit*, February 2010.

²¹ Fabio Giambiagi and Luiz de Mello, "Social Security Reform in Brazil: Achievements and Remaining Challenges," *Organization for Economic Co-operation and Development (OECD)*, Economics Department Working Paper No. 534, December 6, 2006.

²² "Late in, first out," *The Economist*, September 14, 2009.

²³ "Will the economy grow in 2009?" *Latin American Economy & Business*, February 2009; "Brazil economy: Bottoming out?" *Economist Intelligence Unit*, May 7, 2009.

relief, announced its intention to increase investments in its Program to Accelerate Growth (PAC), and maintained its spending on social programs like Bolsa Familia.²⁴

The Brazilian government's actions appear to have been reasonably successful. The economy contracted by just 0.3% in 2009 and Brazil was one of the first Latin American nations to emerge from recession. Analysts believe that the Brazilian economy will rebound with 5% growth in 2010, even as the Brazilian government begins to remove the stimulus measures put in place over the course of 2009.²⁵

Social Indicators

Despite its well-developed economy and large resource base, Brazil has had problems solving deep-seated social problems like poverty and income inequality. Brazil has had one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. The wealthiest 5% of the population account for some 40% of the country's wealth.²⁶ One major cause of poverty and inequality in Brazil has been the extreme concentration of land ownership among the country's elites. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.²⁷ The Brazilian government has also acknowledged that there is a racial component to poverty in Brazil. People of African descent in Brazil, also known as Afro-Brazilians, represent roughly 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.²⁸ Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities for the country's poor.

Brazil's endemic poverty and inequality have, until recently, not been significantly affected by the government's social programs. A March 2005 OECD study found that, even though Brazil had spent the same level or more of public spending on social programs as other countries with similar income levels, it had not achieved the same social indicators as those countries.²⁹ There has been more recent evidence, however, that the Lula government's Bolsa Familia (Family Stipend) program, combined with relative macroeconomic stability and growth over the past few years, has reduced poverty rates, particularly in the north and northeast regions of the country.³⁰ According to the Getulio Vargas Foundation, the percentage of Brazilians considered middle class has increased from 37.6% in 2003 to over 49% today. Nonetheless, some 70 million people (nearly 40% of the population) still live below the poverty line.³¹

²⁴ "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.

²⁵ "Country Report: Brazil," *Economist Intelligence Unit*, February 2010; "Brazil to end tax breaks, reduce stimulus—report," *Reuters*, January 29, 2010.

²⁶ "Brazil: Middle class expands but inequality persists," *Oxford Analytica*, February 8, 2010.

²⁷ "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

²⁸ Ricardo Henriques, "Desigualdade racial no Brasil," Brasília: *Instituto de Pesquisa Econômica Aplicada (IPEA)*, 2001.

²⁹ Organization for Economic Cooperation and Development, "Economic Survey of Brazil 2005," March 2005.

³⁰ Anthony Hall, "From Fome Zero to Bolsa Familia: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006; United Nations Development Program, "Human Development Report 2007/8," November 2007.

³¹ "Brazil: Middle class expands but inequality persists," *Oxford Analytica*, February 8, 2010.

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 in economic cooperation and collective security efforts, and an emerging world power. Brazilian foreign policy has been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.³² Brazil engages in multilateral diplomacy through a variety of sub-regional organizations—including Mercosur, the Union of South American Nations (UNASUR), and the Rio Group—as well as through the Organization of America States (OAS) and the United Nations.

Regional Integration and Leadership

Over the past two decades, Brazil has pushed for greater integration among Latin American nations while consolidating its status as a regional power. Brazil has played an important role in establishing new multilateral organizations, although it has had much more success in developing political cohesion than true economic integration. Brazil has also played an important role in maintaining regional peace and stability, however, its growing commercial and political influence has received some pushback from neighboring countries.

Mercosur

Brazil joined with Argentina, Paraguay, and Uruguay to establish the Common Market of the South (Mercosur)³³ in 1991. The organization was originally created in order to promote economic integration and political cooperation, however, its progress in terms of economic integration has been quite limited. The pact calls for an incremental path to full integration, yet only a limited customs union has been achieved in its nearly 20 year existence. Likewise, Mercosur's internal resolution process has proved unable to resolve disputes between members, and the group has not addressed trade asymmetries, drafted a common customs code, or resolved the issue of double tariffs on some imports from outside the region.³⁴

Despite its lack of economic integration, Mercosur has been an influential body. Since its formation, it has greatly expanded its geographic reach. Chile, Mexico, and the members of the Andean Community of Nations (CAN)—Bolivia, Colombia, Ecuador, Peru, and Venezuela—have all become associate members.³⁵ Venezuela will become the fifth full member of Mercosur once all four founding nations ratify its inclusion; Paraguay is the only country yet to ratify the accession.³⁶ Mercosur has also played an important role on regional issues. For example, its opposition to the Free Trade Area of the Americas (FTAA) was the principle reason why the agreement stalled.

³² Georges D. Landau, "The Decision making Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

³³ For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

³⁴ "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

³⁵ Associate members have no voting rights and need not observe Mercosur's common external tariff.

³⁶ Maria Luiza Rabello, "Brazil Senators Approve Venezuela Entry into Mercosur," *Bloomberg*, December 15, 2009.

Unasur and other Regional Organizations

Even though Mercosur has largely abandoned its attempts to deepen integration among its members, Brazil has continued to push for broader regional integration. The 2004 trade agreement that provided CAN nations with associate membership in Mercosur led to the creation of the South American Community of Nations. In May 2008, this was reformulated as the Union of South American Nations (Unasur) in a pact that included all 12 independent countries of South America. Brazil has also pushed for the incorporation of more countries into the Rio Group, a political forum with no formal institutions that includes a variety of Latin American and Caribbean countries.³⁷ Most recently, Brazil has supported the creation of a new Community of Latin American and Caribbean States, which would bring together all of the countries of the hemisphere except Canada and the United States.³⁸

All of these organizations contribute to the region's increasing independence, however, their capacities are limited. Although Unasur played an important role in resolving a political conflict in Bolivia in late 2008, it has shown a limited capacity to mediate regional differences since then.³⁹ Likewise, the Rio Group was able to reduce regional tensions following a Colombian airstrike of a Revolutionary Armed Forces of Colombia (FARC) camp inside Ecuador in March 2008, but it lacks any of the formal institutions and mechanisms possessed by the Organization of American States (OAS). Nonetheless, these regional organizations provide Brazil with forums in which it can engage in multilateral diplomacy, develop consensus on regional issues, and peacefully resolve disputes without having to turn to extra-regional powers, such as the United States.

Maintenance of Peace and Stability

In addition to supporting the work of multilateral organizations, Brazil has used bilateral diplomacy to encourage the peaceful resolution of conflicts and maintain stability in the region. Brazil has commanded the U.N. Stabilization Mission in Haiti (MINUSTAH) since 2004. It maintains the largest number of peacekeeping troops on the ground, and doubled its forces there following the January 2010 earthquake.⁴⁰ Brazil has also worked with Colombia to end its long-running conflict with the Revolutionary Armed Forces of Colombia (FARC) guerilla group. It has provided logistical assistance to the Colombian government in obtaining the release of political hostages held by the FARC, called on the FARC to end its armed rebellion and assimilate into the Colombian political system, and signed a bilateral agreement with Colombia to allow cross-border privileges in hot pursuit of the FARC.⁴¹ Additionally, Brazil used bilateral diplomacy to convince each of the 12 member nations of Unasur to sign onto its South American Defense

³⁷ The Rio Group was created in 1986 when the Contadora Group and the Contadora Support Group merged. Both groups had favored a negotiated solution to the conflicts in Central America in the 1980s, rather than the U.S. push for a military solution.

³⁸ "Region: New body to represent the region, sans US," *Latin American Security & Strategic Review*, February 2010.

³⁹ "Latin America: Regional tensions challenge UNASUR," *Oxford Analytica*, August 21, 2009.

⁴⁰ Fernanda Odilla, Simone Iglesias & Johanna Nublat, "Brasil vai dobrar efetivo militar no Haiti," *Folha de São Paulo*, January 21, 2010.

⁴¹ "Agradece Colombia a Brasil apoyo en liberación de rehenes," *Agencia Mexicana de Noticias*, February 3, 2009; Stan Lehman, "Lula: FARC debe hacer juego democrático y liberar rehenes," *Associated Press*, December 5, 2008; "Brazil Colombia: A Deal Signals Strategic Cooperation," *Stratfor*, March 12, 2009.

Council in March 2009. The Council is designed to safeguard peace and security by boosting regional cooperation on defense and national security policies.⁴²

Expansion of Influence

While Brazil has consolidated its power within South America, it has not traditionally exerted much influence in Central America or the Caribbean. In recent years, Brazilian government and business officials have sought to change this by expanding the country's political and commercial interests in the broader region. One initiative has involved the use of so-called "ethanol diplomacy," in which Brazil has signed bio-fuels partnership agreements with several Central American and Caribbean countries that would otherwise be dependent on expensive oil imports.⁴³ Brazil has also become a regional observer of the Central American Integration System (SICA) and promoted a trade agreement between SICA and Mercosur.⁴⁴ Moreover, following the June 2009 ouster of Honduran President Manuel Zelaya, Brazil was vocal in advocating for Zelaya's reinstatement and allowed him to take refuge in its embassy. In doing so, it took on a much larger than expected role given its typical noninterventionist foreign policy.⁴⁵ Despite these growing ties to Central American and the Caribbean, analysts assert that Brazil's influence remains mostly confined to South America for the time being.⁴⁶

Regional Backlash

Brazil's expanding influence has generated some backlash in the region. Brazil was caught off guard by Bolivia's May 2006 nationalization of the country's natural gas industry as President Lula had hoped that Petrobras' investments in Bolivia would prevent such an action.⁴⁷ Paraguay has also confronted Brazil over energy issues, demanding a greater price for the electricity generated by the countries' joint hydroelectric dam.⁴⁸ Venezuela—which has sought to increase its regional influence in recent years through the provision of discounted oil—has criticized Brazil's promotion of biofuels, charging that biofuels were the principal cause of the recent food crisis. While Brazil has thus far been able to maintain constructive relations with its South American neighbors, reaching mutually acceptable compromises with Bolivia and Paraguay while avoiding open confrontations with Venezuela, some analysts assert that such conflicts are the result of a growing resentment in Latin America over Brazil's expanding influence. They believe similar conflicts are likely to continue as Brazil's geopolitical power grows.⁴⁹

⁴² "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

⁴³ "Chávez, Lula Promote Competing Visions," *Miami Herald*, August 10, 2007.

⁴⁴ Andres Oppenheimer, "Brazil stretching clout to Central America," *Miami Herald*, June 7, 2009; "Brazil is Challenging Mexico and U.S. Domination of Isthmus," *Latin America Data Base NotiSur*, June 11, 2009.

⁴⁵ Jens Glüsin, "South America's Gentle Giant – Brazil Flexes Muscles Over Honduras Crisis," *Der Spiegel*, October 9, 2009.

⁴⁶ Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010.

⁴⁷ "Bolivia's Populism Steps on Brazil," *Christian Science Monitor*, May 8, 2006; "Brazil May Pay a Price for Generous Deal on Gas," *Financial Times*, February 22, 2007; "Brazil Seeks to Lure Bolivia Away from Venezuela," *Reuters*, December 13, 2007; "New chapter in gas dispute with Bolivia," *Latin News Daily*, March 30, 2009.

⁴⁸ Joshua Goodman, "Paraguay Pushes 'Imperialist' Brazil on Hydro Power: Week Ahead," *Bloomberg*, July 20, 2009.

⁴⁹ Miguel Diaz & Paulo Roberto Almeida, "Brazil's Candidacy for Major Power Status," *Stanley Foundation*, November 2008; Raúl Zibechi, "Is Brazil Creating Its Own 'Backyard'?" *Center for International Policy Americas Program*, February 3, 2009.

Emerging Global Role

As the country has consolidated its power in South America and extended its influence to the broader region, Brazil has also become increasingly prominent on the world stage. Brazil's global reach is largely the result of its fast-growing economy, which is the tenth largest in the world. The country is rich in natural resources and possesses a dynamic agricultural sector. Brazil is the top exporter of coffee, orange juice, sugar, chicken, beef, and soy; the second largest producer of ethanol; and the third largest exporter of agricultural products. Brazil also has a relatively balanced trade regime: Its main trading partners in 2008 were the European Union (24% of exports, 22% of imports), the United States (14% of exports, 15% of imports), China (8% of exports, 12% of imports), and its neighbors in Mercosur (11% of exports, 9% of imports).⁵⁰ These factors, in addition to President Lula's focus on improving relations with other leaders of the developing "South," have made Brazil one of the most important leaders of the G-20 group of emerging nations and a top player in the Doha Round of World Trade Organization (WTO) negotiations.⁵¹

In recent years, President Lula has utilized his country's growing economic clout to assert Brazilian influence in other global matters. In the aftermath of the global financial crisis, Brazil became the foremost proponent of greater international financial regulation and a more democratic global financial system.⁵² Brazil also played an active role at the 2009 U.N. Framework Convention on Climate Change Summit in Copenhagen, calling on developed countries to agree to more substantial green house gas emission reductions, proposing a fund to help poor nations cope with the effects of climate change, and helping craft the summit's last-minute non-binding agreement.⁵³ Additionally, Brazil has suggested that it might be able to act as a mediator in the Middle East, and has pushed for reform of, and a permanent seat on, the U.N. Security Council.⁵⁴

As Brazil has taken on a larger role in global affairs, its foreign policy has been subject to a number of critiques. Some domestic observers have criticized Brazilian foreign policy under Lula as being overly ideological. They have accused President Lula of catering to the demands of regional leftists and have suggested that his international initiatives are designed to maintain support among the base of the Worker's Party, which is disillusioned with his Administration's market-friendly economic policies.⁵⁵ Likewise, Roberto Abdenur, the former Brazilian Ambassador to Washington, has asserted that the "south-south" approach of the Brazilian Foreign Ministry indoctrinates Brazilian diplomats with "anti-imperialist" and "anti-American" attitudes.⁵⁶ International observers have criticized Brazil for not speaking out on human rights violations and undemocratic practices.⁵⁷ The country's acceptance of the 2009 Iranian elections and refusal to sanction Iran for its nuclear program have been particular baffling to many in the

⁵⁰ Mercosur trade statistics only include the other full members of the trade bloc: Argentina, Uruguay, and Paraguay.

⁵¹ Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010; "Brazil takes off," *The Economist*, November 12, 2009.

⁵² "Brasil defenderá mais regulação no G-20," *O Globo* (Brazil), August 6, 2009.

⁵³ Gaurav Singh, "China, India, Brazil Commit to Meet Copenhagen Accord Deadline," *Bloomberg*, January 25, 2010.

⁵⁴ "Brazilian minister on Middle East role," *BBC Monitoring*, January 4, 2010.

⁵⁵ "Lula criticised for 'partisan' foreign policy," *Latin American Weekly Report*, January 22, 2009.

⁵⁶ Otávio Cabral, "Nem na Ditadura," *Veja*, February 7, 2007.

⁵⁷ "Brazil: Diplomacy criticised for undermining human rights," *Latin American Weekly Report*, July 16, 2009; "Whose side is Brazil on?," *Economist*, August 13, 2009.

international community. Brazilian officials maintain that the country views confrontational policies as counterproductive and prefers to maintain friendly relations with all nations in hopes of fostering negotiated solutions to disagreements.⁵⁸

Relations with the United States

Currently, relations between the United States and Brazil may be characterized as friendly. The United States has increasingly regarded Brazil as a significant power, especially in its role as a stabilizing force in Latin America. U.S. officials assert that the United States seeks to increase cooperation with moderate leftist governments in Latin America (like Brazil) in order to ease mounting tensions among countries in South America, and to deal with populist governments in the region. Brazil under President Lula 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 commanding the U.N. stabilization force in Haiti.

Brazil and the United States have worked closely on a wide range of bilateral and regional issues, and Brazil-U.S. cooperation has increased in recent years, as reflected in the continuing high-level contacts between the two governments, particularly on energy issues. Early in 2007, two high-level meetings between Presidents Bush and Lula culminated in the March 2007 signing of a U.S.-Brazil Memorandum of Understanding (MOU) to promote bio-fuels development in the Western Hemisphere.⁵⁹ The initiative was expanded in November 2008 to include additional countries in Africa, Central America, and the Caribbean (See "Ethanol and Other Biofuels" section below).⁶⁰

Although Brazil and the United States 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 how (and whether) to create a Free Trade Area of the Americas (FTAA) and Brazil's vocal opposition to the war in Iraq and the U.S. embargo of Cuba. Despite President Lula's friendly relationship with President Obama, a number of differences between Brazil and the United States have emerged in recent months. In addition to ongoing disputes over the U.S. tariff on Brazilian ethanol and the Doha Round of WTO negotiations, Brazil has criticized the United States for failing to take a stronger stance on the political crisis in Honduras and has reacted negatively to a recent agreement that will provide the United States with access to seven Colombian military bases, which the Brazilian foreign minister described as "a strong military presence whose aim and capability seems to go well beyond what might be needed inside Colombia."⁶¹

⁵⁸ Bill Varner, "Brazil Resists Push for Tougher Sanctions on Iran, Envoy Says," *Bloomberg*, February 17, 2010; Andres Oppenheimer, "Hubris is behind Brazil's ties with Iran," *Miami Herald*, February 21, 2010; "Brazil asserts its autonomy before Clinton," *Latin News Daily*, March 4, 2010.

⁵⁹ For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

⁶⁰ 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.

⁶¹ "Brazil-US rows building over Colombia, biofuel, trade: FM" *Agence France Presse*, August 2, 2009; "Brasil espera una actitud más firme de EEUU contre el golpe," *EFE News Service*, August 4, 2009.

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. Brazil received \$21.5 million in U.S. aid in FY2009, will receive an estimated \$25 million in FY2010, and would receive \$20.9 million under the Obama Administration's request for FY2011. U.S. assistance priorities in Brazil include supporting environmental programs and the strengthening of 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.⁶²

Selected Issues in U.S.-Brazil Relations

The Bush Administration came to view Brazil as a strong partner whose cooperation should be sought in order to solve regional and global problems, and the Obama Administration appears to view Brazil in a similar light. Current issues of concern to both Brazil and the United States include counternarcotics and counterterrorism efforts, energy security, trade, human rights, the fight against HIV/AIDS, and the environment.

Counternarcotics

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

With U.S. support, Brazil has taken several steps to improve its counternarcotics capabilities. In 2004, Brazil implemented an Air Bridge Denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also worked with its neighbors to construct Joint Intelligence Centers at strategic points along its borders and invested in a sensor and radar project called the Amazon Vigilance System in an attempt to control illicit activity in its Amazon region. In 2009, Brazil's federal police captured 18.9 metric tons of cocaine, 1.4 metric tons of cocaine base, 513 kilograms of crack cocaine, 150.6 metric tons of marijuana, 3.3 kilograms of heroin, and 183.3 tons of precursor chemicals.⁶³

Brazil received \$992,000 in U.S. counternarcotics assistance in FY2008, was expected to receive \$1 million in FY2009, and would receive an estimated \$1 million in FY2010 under the Obama Administration's request.⁶⁴ U.S. counternarcotics assistance includes training for the Brazil's federal police, support for interdiction programs at Brazil's ports, and expanding the capabilities of special investigations units.

⁶² U.S. State Department, FY2010 Congressional Budget Justification for Foreign Operations, May 29, 2009; "Budget and Allocations for FY 2011 Rollout," provided to CRS by the U.S. Department of State, January 29, 2010.

⁶³ U.S. Department of State, International Narcotics Control Strategy Report 2010, Volume 1, March 1, 2010.

⁶⁴ U.S. Department of State, "Summary and Highlights, International Affairs, Function 150, Fiscal Year 2010."

Counterterrorism and the Tri-Border Area⁶⁵

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 2009 State Department Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds through illicit activities and from sympathizers in the sizable Middle Eastern communities in the region. Indeed, reports have indicated that Hezbollah earns over \$10 million a year from criminal activities in the TBA.⁶⁶ Although it has been reported that al Qaeda's operations chief Khalid Shaikh Mohammed lived in the Brazilian TBA city of Foz de Iguazu in 1995 and Brazilian authorities arrested Ali al-Mahdi Ibrahim—who was wanted by Egypt for his alleged role in the 1997 massacre of tourists at Luxor—in the TBA in 2003, the State Department report states that there have been no corroborated reports that any Islamic groups have an operational presence in the area.⁶⁷ The United States joined with the countries of the TBA in the “3+1 Group on Tri-Border Area Security” in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

The United States has also worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos. While the State Department Country Reports on Terrorism lauded the Brazilian government as a “cooperative partner in countering terrorism,” it also noted that Brazil's failure to strengthen its legal counterterrorism framework by passing long-delayed anti-money laundering and counterterrorism bills “significantly undermined its overall commitment to combating terrorism.”⁶⁸ Brazil, like many Latin American nations, has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as terrorism by repressive military regimes in the past.⁶⁹ Nonetheless, some Brazilian officials continue to push for antiterrorism legislation, asserting that the country will face new threats as a result of hosting the 2014 World Cup and the 2016 Olympics.⁷⁰

In January 2009, the Western Hemisphere Counterterrorism and Nonproliferation Act of 2009 (H.R. 375, Ros-Lehtinen) was introduced in the House. Among other provisions, the bill calls on the U.S. Secretary of State to negotiate with Brazil, Argentina, and Paraguay to establish a Regional Coordination Center (RCC) in the TBA to serve as a joint operational facility dedicated to coordinating efforts, capacity, and intelligence to counter current and emerging threats and prevent the proliferation of nuclear, chemical, and biological weapons. A similar provision can be found in the Foreign Relations Authorization and Reform Act for Fiscal Years 2010 and 2011 (H.R. 2475, Ros-Lehtinen), which was introduced in the House in May 2009.

⁶⁵ For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

⁶⁶ Alain Rodier, “Notes D'Actualité N° 168: Les Trafics de Drogue du Hezbollah en Amérique Latine,” *Centre Français de Recherche sur le Renseignement*, April 14, 2009.

⁶⁷ “Latin America: A Safe Haven for Al Qaeda?” *STRATFOR*, September 4, 2003; U.S. Department of State, Office of the Coordinator for Counterterrorism, “Country Reports on Terrorism,” April 30, 2009.

⁶⁸ *Ibid.*

⁶⁹ “Anti-terrorism law project scrapped,” *Latin American Security & Strategic Review*, January 2008.

⁷⁰ Guila Flint, “Jobim alerta para ameaça de atentados e diz que país deve se preparar para problemas durante Copa e Olimpíadas,” *O Globo* (Brazil), January 26, 2010.

Energy Security

In the last few years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through increased domestic production and the development of alternative energy resources. In addition to being the world's second largest producer of ethanol, Brazil currently generates over 85% of its electricity through hydropower.⁷¹ At the same time, Brazil has attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program. More recently, Brazil's state-run oil company, Petrobras, a leader in deep-water oil drilling, has discovered what may be the world's largest oil field find in 25 years.⁷²

Ethanol and Other Biofuels⁷³

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. On March 9, 2007, the United States and Brazil, the world's two largest ethanol-producing countries, signed a Memorandum of Understanding to promote greater cooperation on ethanol and biofuels in the Western Hemisphere. The agreement involves: (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and, (3) multilateral efforts to advance the global development of biofuels. The first countries to receive U.S.-Brazilian assistance were the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis.⁷⁴

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. On November 20, 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.⁷⁵ The United States and Brazil are also working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform. In March 2009, the Western Hemisphere Energy Compact (S. 587, Lugar) was introduced. The legislation would provide \$6 million in FY2010 to expand U.S.-Brazil biofuels cooperation.⁷⁶

Despite this progress, several potential obstacles to increased U.S.-Brazil cooperation on biofuels exist, including current U.S. tariffs on most Brazilian ethanol imports. The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade

⁷¹ "Brazil: Hydrocarbons potential poses major challenges," *Oxford Analytica*, November 20, 2007.

⁷² "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

⁷³ For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

⁷⁴ 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.

⁷⁵ 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.

⁷⁶ Senator Lugar had introduced a similar measure in the 110th Congress, S. 1007, reported out of the Senate Foreign Relations Committee on September 23, 2008.

Preferences Act, among others.⁷⁷ 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. Several bills were introduced in the 110th Congress that would have eliminated or adjusted the ethanol tariff.

Nuclear Energy

Between the mid-1970s and the mid-1980s, Brazil 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 Agency (IAEA) inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel, and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.⁷⁸

President Lula has stated Brazil's intention to spend \$540 million over the next eight years to build a third nuclear power plant and a nuclear-powered submarine. In September 2008, the Brazilian Minister for Energy and Mining announced that he would like Brazil to build 60 new nuclear energy plants over the next 50 years. He claimed this expansion of nuclear power is the only way that Brazil will be able to meet the energy needs of its growing population while avoiding massive carbon emissions through the burning of fossil fuels.⁷⁹

Oil

The recent discovery of substantial oil fields in the Santos Basin, which extends 500 miles along the Brazilian coast, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The Tupi field, discovered in November 2007, has confirmed oil reserves of between five and eight billion barrels, and it is estimated that the entire Santos Basin could hold up to 50 billion barrels of oil. President Lula asserts that the oil fields have the potential to transform Brazil and improve living conditions for its people. He intends to implement a new regulatory framework, which will increase the state's role in the exploitation of the reserves while investing the profits in a new social fund for education, infrastructure, science and technology, and poverty reduction.⁸⁰

⁷⁷ For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.

⁷⁸ "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.

⁷⁹ "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report*, November 2008.

⁸⁰ "Brazil's Oil Law still awaiting approval," *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

Exploiting the new fields will be difficult and costly, however, as the oil is located in the so-called “pre-salt” layer, beneath layers of rock and salt up to 7,000 meters below the seabed. Brazil’s state-owned oil company, Petrobras, has announced that it will need \$270 billion in investment over the next 10 years to develop the reserves.⁸¹ Some foreign investors have questioned whether the company will be able to access sufficient finance should the Brazilian government implement its proposed regulatory framework.⁸² Nonetheless, Petrobras has already received several financing commitments. In April 2009, the Export-Import Bank of the United States approved a preliminary \$2 billion loan commitment to Petrobras.⁸³ Since then, the U.S. government has reportedly indicated that it is prepared to go beyond the original agreement to provide up to \$10 billion in financing.⁸⁴ In May 2009, Brazil and China signed an agreement under which China will provide Petrobras with \$10 billion in financing in exchange for guaranteed oil deliveries of 150,000 barrels per day (bdp) in 2009 and 200,000 bpd for the next decade.⁸⁵ Brazil’s state-owned National Bank of Economic and Social Development (BNDES) will provide Petrobras with an additional \$12.5 billion over 20 years.⁸⁶

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 Mercosur and to establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosur-European Union free trade agreement. The United States has been actively involved in the Doha negotiations and, until late 2005, pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA). Since negotiations for the FTAA have been largely abandoned, the United States has continued to sign bilateral and subregional agreements with countries throughout Latin America. Bilateral trade between the United States and Brazil totaled \$46.2 billion in 2009, a nearly 23% decline from 2008. U.S. exports to Brazil amounted to \$26.2 billion while U.S. imports from Brazil amounted to \$20.1 billion.⁸⁷

Doha Round of the World Trade Organization Talks⁸⁸

Brazil has had a leading role in the Doha round of the World Trade Organization (WTO) talks. In 2003, Brazil led the G-20 group of developing countries’ efforts to insist that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, but formal talks were suspended indefinitely in July 2006 after key negotiating groups failed to break a deadlock on the issue of agricultural tariffs and subsidies. In June 2007, negotiators from India

⁸¹ “Brazil needs \$270 bln over 10-yr for deepwater oil,” *Reuters*, March 19, 2009.

⁸² “Brazil’s Golden Times Start to Roll,” *Latin News Daily*, September 3, 2008; “Hydrocarbons Potential Poses Major Challenges,” *Oxford Analytica*, November, 20, 2007.

⁸³ Export-Import Bank of the United States, *Summary of Minutes of Board of Directors*, April 14, 2009.

⁸⁴ “Brazil: U.S.-Chinese Competition in Latin America,” *Stratfor*, August 12, 2009.

⁸⁵ “Brazil: Da Silva Goes to China,” *Stratfor*, May 19, 2009.

⁸⁶ “China’s Sinopec negotiating first oil exploration deal in Brazil,” *EFE News Service*, June 29, 2009.

⁸⁷ U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, February 2010.

⁸⁸ For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

and Brazil walked out of a round of informal talks with representatives from the United States and the European Union (EU), refusing to open their markets further unless U.S. and EU subsidies were substantially reduced. In recent years, trade ministers have repeatedly failed to reach an agreement to conclude the Doha round and the U.S. negotiating position remains a source of contention with Brazil.⁸⁹

World Trade Organization Dispute⁹⁰

On December 21, 2009, Brazil announced that the WTO had authorized the country to impose trade retaliation measures worth \$829.3 million in 2010 as a result of a nearly decade long dispute over U.S. cotton subsidies. Although Brazil has not yet finalized its decision to impose retaliatory measures, it has indicated that it may levy duties of up to 100% on a preliminary list of 222 goods of U.S. origin valued at \$561 million and implement cross-retaliation in sectors outside the trade in goods—such as U.S. copyrights and patents—for the remaining \$268.3 million.⁹¹ Brazil initiated the dispute with the United States in 2002, and a WTO dispute settlement panel ruled in Brazil's favor in September 2004. The United States appealed the ruling but it was reaffirmed by the WTO appellate body in March 2005. Although the Bush Administration asked Congress to modify the cotton subsidy program in July 2005, a WTO dispute panel ruled in December 2007 that the United States was not moving quickly enough to comply with the 2004 ruling.⁹² Brazil and the United States then went to arbitration over the level of trade sanctions Brazil has the right to impose against the United States, leading to an August 31, 2009 decision by a WTO arbitration panel, which largely favored Brazil's retaliation request.

Generalized System of Preferences⁹³

The Generalized System of Preferences (GSP) provides duty-free tariff treatment to certain products imported from developing countries. In the 109th Congress, renewal of the preference (as established by Title V of the Trade Act of 1974) was somewhat controversial, owing, in part, to concerns of some Members that a number of the more advanced developing countries (such as Brazil and India) were contributing to the impasse in the Doha round of WTO talks. Compromise language worked out between the House and Senate extended GSP for two years for all countries, while asserting that the President “should” revoke “competitive need limitation (CNL)” waivers for products from certain countries, based on the criteria specified. In June 2007, the Bush Administration decided to revoke the CNL waivers on Brazilian brake parts and ferrozirconium.⁹⁴ The 111th Congress extended GSP until December 31, 2010 with P.L. 111-124.

⁸⁹ “Uncertainty Lies Ahead for WTO,” *Oxford Analytica*, July 31, 2008; “Brazil-US rows building over Colombia, biofuels, trade: FM,” *Agence France Presse*, August 2, 2009.

⁹⁰ For more information on U.S.-Brazil WTO disputes, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* and CRS Report RL34351, *Brazil's and Canada's WTO Cases Against U.S. Agricultural Direct Payments*, by Randy Schnepf.

⁹¹ BNA, *International Trade Reporter*, “Brazil Says Entitled to Impose \$829 Million in Annual Sanctions on U.S. in Cotton Case,” December 24, 2009.

⁹² “WTO Tells U.S. to Act on Illegal Cotton Subsidies,” *Financial Times*, December 19, 2007.

⁹³ This section was drawn from CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

⁹⁴ “USTR Revokes GSP Waivers for India, Brazil Despite Rangel Objections,” *Inside U.S. Trade*, June 29, 2007.

On June 4, 2009, H.R. 2702 (C. Smith) was introduced in the House. The bill would suspend GSP for Brazil until the country meets its obligations under the Convention on the Civil Aspects of International Child Abduction.

Intellectual Property Rights

In the last few years, Brazil has taken steps to improve its record on protecting intellectual property rights (IPR). The Brazilian government has created a national action plan to address piracy and intellectual property crimes, which has included increased police actions. Brazil and the United States continue to work together to address intellectual property issues, primarily through the U.S.-Brazil Bilateral Consultative Mechanism and the U.S.-Brazil Commercial Dialogue. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant IPR violations to the Watch List in 2007. Brazil remained on the Watch List in 2008 and 2009. In order to build on progress that has been made, USTR recommends that Brazil should consider strengthening its IPR enforcement legislation, more vigorously addressing book and internet piracy, and signing the World Intellectual Property Organization Internet Treaties.⁹⁵ The U.S. government has also expressed concerns about Brazil's periodic threats to issue compulsory licenses for patented pharmaceutical products. In May 2007, Brazil broke a patent on a drug used to treat HIV/AIDS that is produced by Merck & Co. in order to import a cheaper version of that drug from India.⁹⁶ In July 2009, President Lula suggested that developing countries should be allowed to lift patent rights to produce more vaccine to battle the A(H1N1) flu epidemic.⁹⁷

Human Rights

The U.S. State Department's Country Report on Human Rights on Brazil covering 2008 states that while "the federal government generally respected the human rights of its citizens ... there continued to be numerous, serious abuses, and the records of several state governments were poor." Some human rights issues of particular concern include ongoing crime and human rights abuses by police, race and discrimination, and trafficking in persons.

Violent Crime and Human Rights Abuses by Police

Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening citizens' security in Brazil. Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. Violence has traditionally been linked to turf wars being waged between rival drug gangs for control of the drug industry or to clashes between drug gangs and police officials, who have been criticized for the brutal manner in which they have responded to the gang violence.

The weaknesses in Brazil's criminal justice system have become dramatically apparent in recent years as gangs have launched violent attacks that have destabilized the cities of São Paulo and

⁹⁵ U.S. Trade Representative, "Special 301 Report," April 30, 2009.

⁹⁶ "Haggling Saves Brazil \$1 Billion on AIDS Drugs," *Reuters News*, November 13, 2007.

⁹⁷ "Update: Argentina, Brazil Question Swine Flu Vaccine Patents," *CNN Money*, July 24, 2009.

Rio de Janeiro. In one such attack in May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (PCC), paralyzed the city of São Paulo for several days.⁹⁸ Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths.⁹⁹ More recently, in October 2009, gunmen of the Red Command (CV) launched a raid on the Morro dos Macacos favela to wrest control of the drug trade from the rival Friends of Friends gang. Over the course of several days, 31 people were killed, including three police sharpshooters whose helicopter was shot down as they tried to control the situation.¹⁰⁰

As police forces in São Paulo and Rio de Janeiro have employed strong-arm tactics in hopes of curbing the rampant gang violence, some human rights groups have raised concerns over a rising number of extrajudicial killings. Upon completing a November 2007 visit to Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to “kill with impunity in the name of security.”¹⁰¹ Indeed, more than 11,000 people have been killed by the two police forces since 2003. Although the officers involved have reported nearly all of the killings as legitimate acts of self defense, or “resistance killings,” a recent two year investigation by Human Rights Watch concluded that “a substantial portion of the alleged resistance killings reported...[were] in fact extrajudicial executions.” The Human Rights Watch report also indicates that those police officers responsible for extrajudicial killings enjoy near total impunity. For example, of the over 7,800 complaints against police officers recorded by the Rio Police Ombudsman’s Office over the past decade, only 42 generated criminal charges by state prosecutors and just four led to convictions.¹⁰² Despite these criticisms, some have defended the strong-arm tactics. São Paulo’s public security secretariat maintains that Human Rights Watch failed to take note of the fact that annual state killings by police have declined by 50% since 2003 while the homicide rate has been reduced by 70% over the past decade.¹⁰³

Many analysts have 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, this may be changing. The state of Rio de Janeiro launched a new anticrime initiative in 2009 that considerably expands the number of personnel charged with maintaining security. Whereas previous police efforts generally centered around quick raids, the new initiative establishes Police Pacification Units (UPPs) that will maintain permanent presences in the favelas. After the favelas are cleared of drug gangs, the UPPs are charged with maintaining security and other governmental institutions are brought in to provide basic social services. The new initiative has been rather successful in reducing crime and violence without extensive

⁹⁸ Formed in 1993 to protest the country’s poor prison conditions, the PCC now has at least 6,000 dues-paying members and reportedly exerts control over more than 140,000 prisoners in the São Paulo prison system. Stephen Hanson, “Brazil’s Powerful Prison Gang,” *Council on Foreign Relations*, September 26, 2006.

⁹⁹ “Brazil: Battle of São Paulo Leaves a Disquieting Balance,” *Latin American Weekly Report*, May 23, 2006; “Police are Criticized in Wave of Gang Violence in Brazil,” *New York Times*, May 30, 2006; “Attacks in São Paulo Prompt Fears of Renewed Gang Offensive,” *EFE News Service*, February 7, 2007.

¹⁰⁰ “Brazil: Rio police intervention in gang war leaves high toll,” *Latin America Security & Strategic Review*, October 2009.

¹⁰¹ “Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil,” *States News Service*, November 15, 2007.

¹⁰² “Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo,” *Human Rights Watch*, December 2009.

¹⁰³ “Human Rights: Police violence under renewed scrutiny,” *Latin American Regional Report: Brazil & Southern Cone*, January 2010.

bloodshed. Rio de Janeiro's government intends to expand the initiative from the seven pilot favelas targeted in 2009 to 40 additional favelas in 2010.¹⁰⁴

Race and Discrimination¹⁰⁵

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.¹⁰⁶ 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.

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.¹⁰⁷ 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.¹⁰⁸

Despite these limitations, Brazil has taken a leadership role in advancing issues of race and discrimination within the Organization of American States, where it is leading the drafting of an Inter-American Convention for the Prevention of Racism and All Forms of Discrimination and Intolerance. In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan Against Racial Discrimination to bilaterally promote racial equality in areas such as education, health, housing, and labor.¹⁰⁹ On September 9, 2008, the House passed H.Res. 1254 (Engel), expressing congressional support for the U.S.-Brazil anti-discrimination plan.

Trafficking in Persons for Forced Labor¹¹⁰

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

¹⁰⁴ "Brazil: Forty Rio favelas targeted for 'pacification,'" *Latin American Security & Strategic Review*, January 2010.

¹⁰⁵ 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.

¹⁰⁶ Ricard Henriques, "Desigualdade racial no Brasil," Brasília: Instituto de Pesquisa Econômica Aplicada (IPEA), 2001.

¹⁰⁷ Livio Sansone, "Anti-Racism in Brazil," *NACLA Report on the Americas*, September 1, 2004.

¹⁰⁸ Dayanne Mikevis and Matthew Flynn, "Brazil's Civil Rights Activists Achieving Overdue Policy Reform," *Citizen Action in the Americas*, No. 17, April 2005.

¹⁰⁹ "Partnering with U.S. to Fight Racial Bias," *Miami Herald*, September 8, 2008.

¹¹⁰ For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

efforts to do so. As a result, it is listed as a Tier 2 country.¹¹¹ Brazil is a source, transit, and destination country for people, especially women and children, trafficked for commercial sexual exploitation. Brazilian Federal Police estimate that between 250,000 and 400,000 children are exploited in domestic prostitution, especially in the country's coastal resort areas where child sex tourism is prevalent.

Brazil is also a source country for men trafficked internally for forced labor. More than 25,000 men have reportedly been recruited to labor in slave-like conditions, many in the country's agribusiness industry. Roughly half of the more than 11,000 people freed from debt slavery in 2007 and 2008 were found working on sugarcane plantations.¹¹² While the Brazilian government announced an agreement with the sugar industry to provide decent working conditions for the country's sugarcane cutters in June 2009, the accord does not establish minimum wages or formal obligations.¹¹³ Reports suggest that significant numbers of men working in cattle ranching, mining, and the production of charcoal for pig iron—a key ingredient of steel that is then purchased by major companies in the United States—are also subjected to slave labor.¹¹⁴

Over the past year, the Brazilian government has taken a number of actions to address the problem of human trafficking. Anti-slave labor mobile units under the Ministry of Labor increased their operations, inspecting remote areas, freeing victims, and forcing those responsible to pay fines and restitution. Slave labor victims received some \$3.6 million in compensation as a result of the 2008 operations. The Brazilian government also continued prosecuting traffickers, providing assistance to victims, and broadcasting its anti-trafficking public awareness campaign. Additionally, the Brazilian government began implementing a national plan of action to prevent trafficking in persons. Despite these actions, Brazil has made only limited progress in bringing traffickers to justice and effectively penalizing those who exploit forced labor.¹¹⁵

Convention on the Civil Aspects of International Child Abduction

Over the past several years, a high-profile child custody case has focused attention on Brazil's noncompliance with the Hague Convention on the Civil Aspects of International Child Abduction.¹¹⁶ In June 2004, Sean Goldman was taken to Brazil by his mother, Bruna Bianchi

¹¹¹ 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.

¹¹² U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, "Trafficking in Persons Report," June 4, 2008 & June 16, 2009.

¹¹³ "Brazil seeks decent working conditions for sugarcane cutters," *EFE News Service*, June 26, 2009.

¹¹⁴ Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006; U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, "Trafficking in Persons Report," June 16, 2009.

¹¹⁵ U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, "Trafficking in Persons Report," June 16, 2009.

¹¹⁶ For more information on international parental child abductions, see CRS Report RS21261, *International Parental* (continued...)

Carneiro Ribeiro Goldman, a Brazilian native. Ms. Bianchi then divorced her husband David Goldman—a U.S. citizen—and asserted full custody of Sean. In August 2004, the Superior Court of New Jersey ruled that Ms. Bianchi’s continued retention of Sean constituted parental kidnapping under U.S. law and awarded Mr. Goldman custody.¹¹⁷

In September 2004, Mr. Goldman filed an application for Sean’s return under the 1980 Hague Convention on the Civil Aspects of International Child Abduction, to which both the United States and Brazil are party and which entered into force between the countries on December 1, 2003. Under the Convention, a child removed from a country in violation of a parent’s custodial rights should be promptly returned to the place of his or her habitual residence. The courts of the country of the child’s residence can then resolve the custody dispute.¹¹⁸

In 2005, a Brazilian federal judge ruled that although Sean had been moved to Brazil wrongfully, he should remain in Brazil because he had become settled in his new location.¹¹⁹ In August 2008, Ms. Bianchi died and a Brazilian state court judge granted temporary custody of Sean to the man Ms. Bianchi married following her move to Brazil, Joao Paulo Lins e Silva.¹²⁰ The custody case then bounced between federal appeals courts and the Brazilian Supreme Court until December 22, 2009, when the Brazilian Supreme Court issued a definitive ruling that ordered that Sean be returned to his father. On December 24, 2009, Sean was handed over to Mr. Goldman at the U.S. Consulate in Rio de Janeiro.¹²¹

The U.S. State Department’s *Report on Compliance with the Hague Convention on the Civil Aspects of International Child Abduction* cites Brazil for patterns of noncompliance with the Convention. It faults Brazilian courts for treating Convention cases as custody decisions, demonstrating bias toward Brazilian citizens, and making the judicial process excessively lengthy. There are currently some 50 unresolved cases of children being retained in Brazil after having been wrongly removed from the United States.¹²²

On March 11, 2009, the House unanimously passed H.Res. 125 (C. Smith), calling on Brazil to meet its obligations under the Hague Convention to return Sean Goldman to his father in the United States. On March 24, 2009, the Senate approved S.Res. 37 (Lautenberg) by unanimous consent, calling on Brazil to comply with the requirements of the Convention on the Civil Aspects of International Child Abduction and to assist in the safe return of Sean Goldman to his father in the United States. On June 4, 2009, H.R. 2702 (C. Smith) was introduced in the House. The bill

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Child Abductions, by Alison M. Smith.

¹¹⁷ *David G. Goldman V. Bruna B. Goldman*, FD-13-395-05C (Superior Court of New Jersey 2004).

¹¹⁸ Hague Conference on Private International Law: Final Act, Draft Conventions on Civil Aspects of International Child Abduction and on International Access to Justice, Articles on the Law Applicable to Certain Consumer Sales, and Recommendations and Decisions of the Conference, Oct. 25, 1980, 19 I.L.M. 1501 (1980).

¹¹⁹ Under Article 12 of the Hague Convention, a judge may refuse to return a child if the child has become settled in his or her new home and more than one year has passed from the date of the child’s removal.

¹²⁰ Joshua Partlow, “Fight for 8-Year-Old Colors Relationship Between U.S., Brazil,” *Washington Post Foreign Service*, March 13, 2009; Kirk Semple, “Court Battle Over a Child Strains Ties in 2 Nations,” *New York Times*, February 25, 2009.

¹²¹ Marcelo Soares & Chris Kraul, “Boy leaves brazil with his father: The long custody battle over Sean Goldman had strained U.S.-Brazil relations,” *Los Angeles Times*, December 25, 2009.

¹²² Kirk Semple, “Court Battle Over a Child Strains Ties in 2 Nations,” *New York Times*, February 25, 2009.

would suspend the Generalized System of Preferences for Brazil until the country meets its obligations under the Convention on the Civil Aspects of International Child Abduction.

HIV/AIDS

Internationally recognized as having one of the world's most successful HIV/AIDS programs, Brazil has made the fight against the spread of HIV/AIDS a national priority. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral therapy (ART) on a limited basis by 1991, and later guaranteeing universal access by 1996. Currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government. 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 1996.¹²³ HIV prevalence has been stable at 0.5% for the general population in Brazil since 2000, 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. That decision 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 in Brazil. 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). That temporary waiver became permanent in late 2005.¹²⁴

Brazil currently manufactures older ART drugs for domestic consumption and export to several African countries but has to import newer medicines. According to Brazil's Ministry of Health, tough negotiations with pharmaceutical companies have resulted in \$1.1 billion in savings for the country's HIV/AIDS program.

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. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.¹²⁵

¹²³ Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

¹²⁴ Mary Anastasia O'Grady, "Brazil Could Turn a Trade Victory into Defeat," *Wall Street Journal*, December 16, 2005.

¹²⁵ 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.

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.¹²⁶ 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.¹²⁷ Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal, however, deforestation rates have generally declined since the peak year of 2004.¹²⁸

Domestic Efforts

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions, the Lula Administration has expanded protected areas and implemented new environmental policies.¹²⁹ During its first five years in office, the Lula Administration created 62 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.¹³⁰ President Lula has also signed a Public Forest Management Law that encourages sustainable development and placed a moratorium on soybean plantings and cattle ranching in the Amazon. Moreover, Brazil 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.¹³¹ The Lula Administration maintains that its efforts have been successful, highlighting the fact that just 2,706 square miles of the Amazon were deforested between July 2008 and July 2009, the lowest annual level since the National Institute for Space Studies began monitoring deforestation in 1988.¹³²

Although some conservation groups have praised President Lula for his Administration's actions, a number of environmentalists—including former Environment Minister Marina Silva and current Environment Minister Carlos Minc—have questioned the Administration's commitment to sustainable development.¹³³ Critics assert that the Administration favors agricultural interests over

¹²⁶ Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

¹²⁷ 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.

¹²⁸ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

¹²⁹ "Brazil: The Land Cries for Amazonia," *Latin America Data Base NotiSur*, February 13, 2009.

¹³⁰ "Brazil: Government policy for Amazon still ambiguous," *Latin News Weekly Report*, May 22, 2008.

¹³¹ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008; "Brazil: Climate credentials to the fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

¹³² "Brazil says Amazon deforestation slowest in 21 years," *Reuters*, November 12, 2009.

¹³³ Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; (continued...)

conservation. This claim was reinforced by President Lula's June 2009 approval of an environmental law that grants nearly 260,000 square miles of the Amazon to illegal squatters, 72% of which will go to large land holders.¹³⁴ Critics also maintain that Brazil's occasional declines in deforestation rates are not the result of the Lula Administration's initiatives, but correspond to declining global commodity prices that make it less profitable to clear the forests. They point out that deforestation rates only began falling as commodity prices collapsed in late 2008.¹³⁵ In order to combat further deforestation, some analysts maintain that the Brazilian government will have to greatly increase the number of people employed to work in protected areas and do more to confront agricultural producers operating within the Amazon.¹³⁶

Carbon Offsets and Other International Initiatives

The Amazon holds 10% of the carbon stores in the world's ecosystem and absorbs nearly two billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change.¹³⁷ The Kyoto Protocol—of which Brazil is a signatory—created a Clean Development Mechanism (CDM), which allows emission reduction projects in developing countries to earn certified emission reduction credits (CERs) that can then be traded or sold to industrialized countries to meet their mandated emission reduction targets. Brazil has taken full advantage of the CDM, and is host to over 9% of the worldwide emission reduction projects. These projects represent 33.5 million CERs, or a reduction of 33.5 million tons of carbon dioxide.¹³⁸ The CDM allows for a wide variety of emission reduction projects, but in terms of forestry, CERs are only awarded for afforestation and reforestation projects, not forest conservation. As a result, forestry projects account for a very small percentage of the total CERs awarded. A number of industrialized countries that would like to achieve a greater percentage of their mandated emission reductions through carbon offsets have teamed with developing countries with substantial tropical forests to propose widening the CDM to include forest conservation. Brazil has opposed such a plan, arguing it would absolve rich countries from cutting their own emissions.¹³⁹ Brazil has supported the rise of voluntary offset markets, however, in which organizations and individuals not subject to mandatory emission reductions can buy carbon offsets to contribute to conservation and clean energy projects.

Brazil believes Amazon conservation should be done through public funding rather than a carbon market. Accordingly, it launched the "Amazon Fund" in August 2008. The fund is intended to attract donations from countries, companies, and non-governmental organizations to assist in Brazil's Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021 to support forest conservation, scientific research, and sustainable development. Norway has pledged \$1 billion to

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Ana Paula Paiva, "Brazil environment minister says lacks support," *Reuters*, May 28, 2009.

¹³⁴ Jose Pedro Martins, "Brazil: Environmentalists and Church Protest Legalization of Fraudulently Obtained Lands in the Amazon," *Latin America Data Base NotiSur*, June 25, 2009.

¹³⁵ Raymond Colitt, "Brazil on target in slowing Amazon deforestation," *Reuters*, June 2, 2009.

¹³⁶ *Ibid*; Joshua Partlow, "A Protected Forest's Fast Decline," *Washington Post*, February 6, 2009.

¹³⁷ "Brazil: Global warming risks threaten Amazonia," *Oxford Analytica*, March 16, 2009; Conor Foley, "The End of the Amazon?," *Foreign Policy*, June 2009.

¹³⁸ United Nations Framework Convention on Climate Change, "CDM Statistics," August 2009.

¹³⁹ "Rich, poor in dispute over rainforest cash," *Reuters*, December 4, 2008. For more information on Forest Carbon Markets, see CRS Report RL34560, *Forest Carbon Markets: Potential and Drawbacks*, by Ross W. Gorte and Jonathan L. Ramseur.

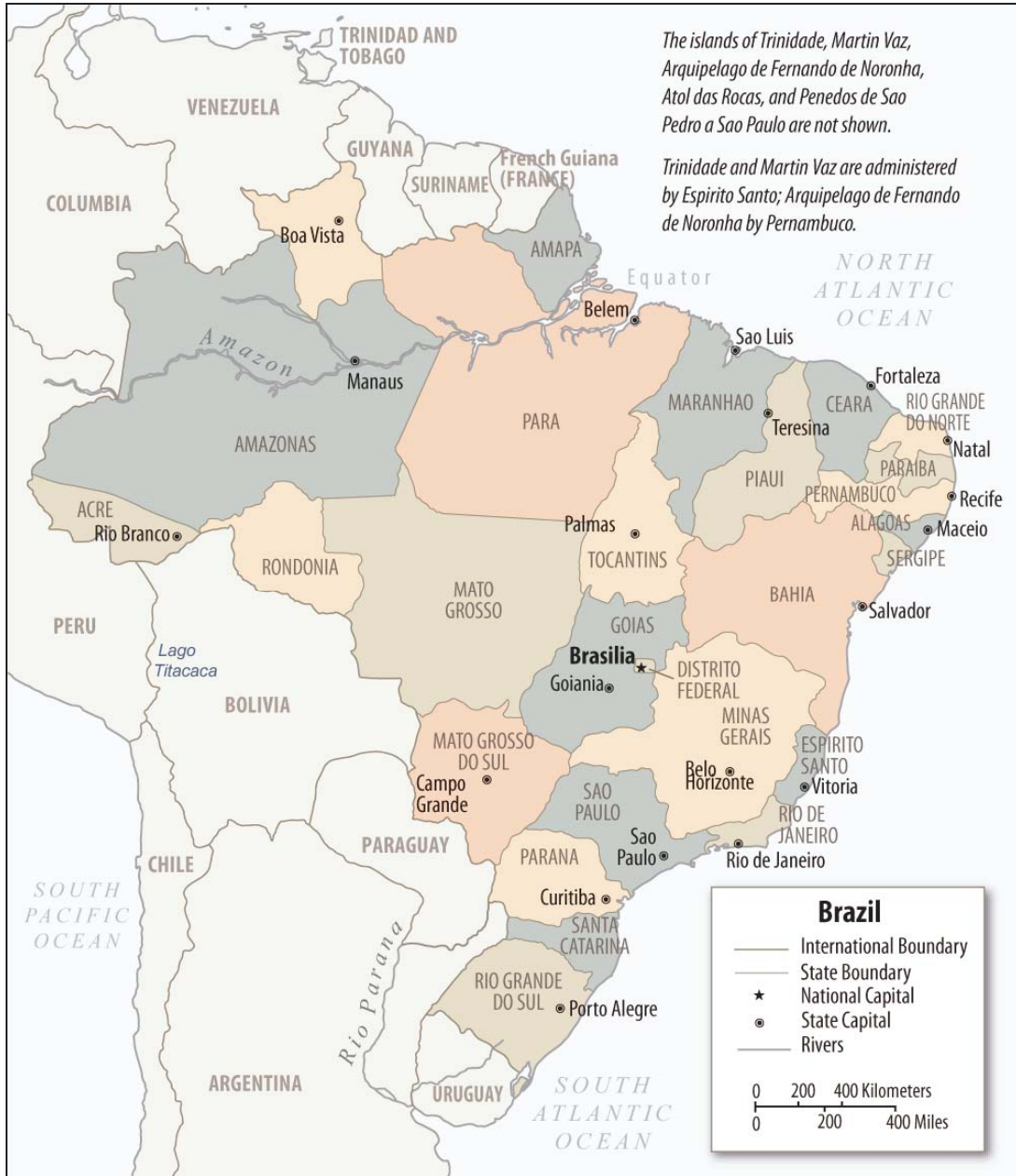
the fund through 2015 and Germany has pledged \$26.8 million. The first projects funded by the Amazon Fund were announced in December 2009. They include projects to regenerate degraded land, monitor land registration titles, and pay rubber tappers and other forest dwellers to protect the forest.¹⁴⁰

USAID environment programs support Amazon conservation through the promotion of proper land-use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon's globally important biodiversity. USAID provided \$5.2 million for environmental programs in Brazil in FY2007, \$9.5 million in FY2008, and \$10 million in FY2009. The Conference Report (H.Rept. 111-366) to the FY2010 Consolidated Appropriations Act (P.L. 111-117) asserts that, of the funds appropriated in the act for biodiversity programs, \$25 million are to go to the Amazon Basin Conservation Initiative, \$10 million of which is directed to activities in Brazil.

¹⁴⁰ "Brazil unveils first foreign-funded Amazon projects," *Reuters*, December 4, 2009.

Appendix. Map of Brazil

Figure A-1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

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