



Brazil-U.S. Relations

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Summary

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

Dilma Rousseff of the ruling center-left Workers' Party was inaugurated to a four-year presidential term on January 1, 2011. She is Brazil's first female president. Rousseff inherits a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010). Since taking office, she has maintained generally orthodox economic policies while continuing to assert a role for the state in development. Her 10-party electoral coalition holds significant majorities in both houses of Brazil's legislature; however, keeping the unwieldy coalition together has already proven challenging. Elements of the governing coalition have criticized Rousseff and even voted with the opposition on key pieces of legislation to express displeasure over her attempts to constrain spending and her quick dismissal of a number of officials accused of corruption. Nonetheless, Rousseff remains relatively popular among the general population, with 49% of Brazilians considering her performance good or excellent in June 2011.

With a gross national income (GNI) of \$1.6 trillion, Brazil is the largest economy in Latin America. Over the past eight years, the country has enjoyed average annual growth of over 4%. This growth has been driven by a boom in international demand for its commodity exports and the increased purchasing power of Brazil's fast-growing middle class. In 2010, the value of Brazil's exports reached some \$202 billion, contributing to a trade surplus of \$20.3 billion. The country's current economic strength is the result of a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have also enabled Brazil to better absorb international shocks like the recent global financial crisis, from which Brazil emerged relatively unscathed. Although current conditions and Brazil's recent performance suggest the country will sustain solid economic growth rates in the near term, several constraints on mid- and long-term growth remain.

The 112th Congress has maintained interest in U.S.-Brazil relations. Several pieces of legislation have been introduced, including bills that would suspend foreign assistance to Brazil (H.R. 2246) and the issuance of visas to Brazilian nationals (H.R. 2556) until the country amends its constitution to allow for the extradition of its citizens. Additionally, the House adopted legislation (H.R. 2112) that includes a provision (H.Amdt. 454) that would prevent any funds made available under the Act from being used to provide payments to the Brazil Cotton Institute.

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

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Background

A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity—including 60% of the Amazon rainforest—and significant natural resources. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Brazil is the fifth-most populous country in the world with 201 million citizens, primarily of European, African, or mixed descent.¹ With a gross national income (GNI) of \$1.6 trillion in 2009, Brazil’s diversified economy is the eighth largest in the world and the largest in Latin America. Per capita GNI is only \$8,040, however, and the country has an unequal income distribution.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.³ Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in some other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. During the first decade after its return to democracy, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office and the other was impeached on corruption charges. Brazil was one of the last countries in the region to move away from state-led development; significant market-oriented policies were not implemented until the administration of Fernando Henrique Cardoso (1995-2002).

Brazil in Brief

Population: 201 Million

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

Religion: 74% Roman Catholic

Official Language: Portuguese

Life Expectancy: 72.6 years

Literacy Rate: 88%

Poverty Rate: 22.9%

Approximate Size: Slightly Smaller than the United States

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

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

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

¹ Brazil has never had a large indigenous population. Today, Brazil’s indigenous population consists of between 700,000 and 800,000 persons, the majority of whom reside on indigenous lands in the Amazon and the center-west of the country. U.S. Department of State, *Country Reports on Human Rights Practices 2010: Brazil*, April 8, 2011.

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

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

Cardoso, a prominent sociologist of the centrist⁴ Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), was elected in 1994 as a result of the success of the anti-inflation “*Real Plan*” that he implemented as finance minister under President Itamar Franco (1992-1994). During his two terms in office, Cardoso brought inflation under control, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Although Cardoso’s popularity declined considerably during his second term as Brazil dealt with a series of financial crises, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has enjoyed over the past decade.⁵

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

⁴ The PSDB was founded as a center-left party by dissidents from the social democratic wing of the Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB); however, it has steadily moved to the right since implementing market-oriented economic reforms during the Cardoso Administration. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

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

Political Situation

Dilma Rousseff of the ruling center-left⁶ Workers' Party (*Partido dos Trabalhadores*, PT) was inaugurated to a four-year presidential term on January 1, 2011. She inherited a country that has benefited from what many analysts consider 16 years of stable and capable governance under Presidents Cardoso (1995-2002) and Lula (2003-2010), during whose administrations the foundations for the country's current levels of economic growth and social inclusion were laid and built upon.⁷ Rousseff has pledged to consolidate and expand the economic and social gains made under her predecessor.

Her multiparty electoral coalition—composed of 10 parties of varying sizes and ideologies—holds significant majorities in both houses of Brazil's legislature. Although this legislative strength should enable Rousseff to pursue portions of her policy agenda, keeping the unwieldy coalition together has already proven challenging. Several parties in the coalition have expressed displeasure with Rousseff's attempts to constrain spending and her quick dismissal of a number of officials accused of corruption. Some have even voted with the political opposition on key pieces of legislation. Nonetheless, Rousseff remains relatively popular among the general population, with 49% of Brazilians considering her performance good or excellent and only 10% considering her performance bad or terrible.⁸

The Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was first elected president of Brazil in 2002. The election was Lula's fourth attempt at the presidency as the candidate of the PT, which he helped found as a metalworker and union leader in the 1980s. Although Lula continued to advocate for stronger state support for Brazil's poor during the campaign, he moderated his earlier leftist rhetoric and promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. In doing so, Lula was able to calm international investors and win over portions of the Brazilian electorate that were disenchanted by economic stagnation and high unemployment at the conclusion of President Fernando Henrique Cardoso's eight years in power. After failing to win an absolute majority of the vote in the first round, Lula easily defeated the PSDB's José Serra—who served in Cardoso's cabinet—in the second round runoff election with over 61% of the vote.⁹

⁶ Although the PT was founded as a leftist party, it moved toward the ideological center upon taking office in 2002. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

⁷ See, for example, "Brazil's Presidential Election – Lula's Legacy," *Economist*, September 30, 2010; Juan Forero, "Cardoso vs. Lula: Two Brazilian Presidents Vie Over Who Turned Country Around," *Washington Post*, October 30, 2010; and Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

⁸ "Popularidade do Governo Dilma Fica Estável," *Datafolha*, June 13, 2011.

⁹ "Brazil: Lula Elected President of Brazil," *Latin News Daily*, October 28, 2002.

During his first term, Lula maintained the market-oriented economic policies associated with his predecessor while placing a greater emphasis on reducing poverty. By the end of his term, President Cardoso had established a three-pronged macroeconomic policy consisting of a primary fiscal surplus, an inflation target, and a floating exchange rate. Lula built upon the policy by raising the primary budget surplus, granting additional autonomy to the Central Bank, and enacting social security and tax reforms. Although the Lula Administration tightly controlled expenditures, it also reorganized and expanded some of the social programs initiated under Cardoso. One conditional cash transfer program, known as *Bolsa Familia* (Family Grant), provides monthly stipends to poor families in exchange for ensuring that their children attend school and receive proper medical care. Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in corruption scandals. A congressional inquiry eventually cleared the president of any direct responsibility, however, and Lula was elected to a second term in October 2006, defeating the PSDB's Gerardo Alckmin in a second round runoff with 61% of the vote.¹⁰

After primarily focusing on economic stability during his first term, Lula established a larger role for the Brazilian state in the economy during his second term. He implemented several stimulus measures to accelerate economic growth and counteract the effects of the global financial crisis. He also expanded social programs like *Bolsa Familia* and launched new programs, such as *Minha Casa, Minha Vida* (My House, My Life)—an attempt to increase formal housing for low-income Brazilians.¹¹ Over the course of Lula's eight years in office, Brazil's per capita gross national income nearly tripled, and some 24.6 million people escaped poverty.¹² Just before leaving office, Lula won legislative approval for a new regulatory framework that will increase the state's role in the exploitation of Brazil's considerable offshore oil reserves in hopes of using the resources to fuel long-term economic and social development.¹³ (For more information, see "Oil" below). Although some analysts have criticized Lula for allegedly protecting corrupt officials and not doing more to pass what they view as crucial economic, political, and social reforms,¹⁴ he won the support of the vast majority of the Brazilian public during his two terms, leaving office with an 87% approval rating.¹⁵

¹⁰ "Lula Wins Re-election by Landslide," *Latin News Daily*, October 30, 2006.

¹¹ Andrew Downie, "Brazil's Stimulus with a Ceiling (and Four Walls)," *Time*, April 22, 2009; "Brazil: Lula Raises Subsidies to Poorest Families," *Oxford Analytica*, August 3, 2009; "Lula's Legacy to Brazil," *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

¹² World Bank, "World Development Indicators," available at <http://data.worldbank.org/data-catalog/world-development-indicators>; Marcelo Cortes Neri, *Os Emergentes dos Emergentes: Reflexões Globais e Ações para a Nova Classe Média Brasileira*, Fundação Getulio Vargas, Rio de Janeiro, June 27, 2011.

¹³ "Brazil Congress Approves Oil Law," *Latin News Daily*, December 2, 2010.

¹⁴ See, for example, Daniel Bramatti, "Lula, Sarney, Collor e Renan...por Lula, Sarney, Collor e Renan," *Estado de São Paulo*, August 9, 2009; "Brazil's Presidential Election – Lula's Legacy," *Economist*, September 30, 2010; and Paulo Kliass, "Lula's Political Economy: Crisis and Continuity," *North American Congress on Latin America (NACLA)*, March/April 2011.

¹⁵ Bradley Brooks, "Lula's Legacy, Leaving Behind a Transformed Brazil," *Associated Press*, December 27, 2010.

2010 Elections

On October 31, 2010, Dilma Rousseff of the ruling center-left Workers' Party (PT) won 56% of the vote to defeat José Serra of the centrist Brazilian Social Democracy Party (PSDB) in a second round presidential runoff election.¹⁶ The second round was necessary since Rousseff had fallen just short of an absolute majority—with 46.9% of the vote—in the first round election held on October 3, 2010.¹⁷ Given the strength of the Brazilian economy and Lula's overwhelming popularity, both major candidates had largely promised continuity during the campaign, with Rousseff pledging to consolidate gains made during the Lula Administration and Serra proposing only relatively minor policy changes. Rousseff had never been elected to public office previously but was chosen by Lula to run as his successor. She served as minister of mines and energy from 2003-2005 and minister of the presidency from 2005-2010, before resigning to seek the presidency. Rousseff headed a 10-party coalition with a running-mate from the centrist Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB).

In legislative elections conducted concurrently with the first round presidential election, Rousseff's coalition made significant gains in both houses of Congress. The PT now holds 88 of the 513 seats in the Chamber of Deputies and 14 of the 81 seats in the Senate, making it the largest party in the lower house and the second-largest party in the upper house. Together, the 10 parties of Rousseff's electoral coalition hold over 60% of the seats in both houses of Congress, large enough majorities to amend the constitution.¹⁸

The Rousseff Administration

Since taking office, President Rousseff has reiterated her pledge to consolidate and build upon the policies of the previous administration. On economic policy, she has maintained generally orthodox policies while continuing to assert a key role for the state in development. Rousseff has sought to constrain spending, cutting about \$32 billion (R\$50 billion) from the budget and limiting the increase in the minimum wage in hopes of easing inflationary pressures.¹⁹ At the same time, the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, BNDES) has continued to provide extensive subsidized financing to Brazilian industry, and Rousseff has launched an anti-poverty plan designed to eradicate extreme poverty by 2014.²⁰ Going forward, issues likely to require Rousseff's attention include attracting investment to develop the country's infrastructure, improving the quality of public education and health services, and reducing high rates of crime and violence in Brazil's urban centers.

¹⁶ "Brazil: Lula Will Bolster—and May Hinder—Rousseff," *Oxford Analytica*, November 1, 2010.

¹⁷ Marina Silva, a former Lula Administration environment minister who ran for president as the candidate of the Green Party (*Partido Verde*, PV), outperformed the pre-election polls by taking 19.3% of the first round vote. Her unexpectedly strong finish kept Rousseff under 50% and forced a second round runoff. Serra won 32.6% of the first round vote. "Brazil's 'Green Wave' Shocker," *Latin News Daily*, October 4, 2010.

¹⁸ Tribunal Superior Eleitoral, accessed on January 5, 2010, available at <http://www.tse.gov.br/internet/index.html>.

¹⁹ "Brazil: Rousseff's Strong Start Boosts Confidence," *Oxford Analytica*, April 7, 2011.

²⁰ Paulo Prada, "The Easy Credit That Fueled Brazil's Boom Now Imperils It," *Wall Street Journal*, June 13, 2011; "Rousseff Launches Anti-Poverty Plan in Brazil," *Agence France Presse*, June 2, 2011.

President Dilma Rousseff

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

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

Although Rousseff's electoral coalition enjoys significant majorities in Congress, she will need to overcome a number of challenges in order to implement her agenda. The 10 parties that backed her candidacy are ideologically diverse, and while some support the policies of the PT, others—including the large PMDB—have demonstrated more interest in the distribution of government resources through the federal budget and the control of ministries and state enterprises.²¹ Lula often struggled to hold together a similarly unwieldy coalition despite his considerable political acumen and public support, and intra-coalition negotiations have already proven challenging for the less experienced and less charismatic Rousseff. Almost immediately, some sectors of the coalition voiced discontent as a result of Rousseff's cabinet appointments.²² Rousseff's attempts to constrain spending and her quick dismissal of more than a dozen officials accused of corruption have exacerbated these intra-coalition differences. Some legislators have even voted with the political opposition on key pieces of legislation, such as a bill that would weaken environmental protections, to demonstrate their displeasure.²³ Although the general public

²¹ Marco Antonio Villa, "PMDB Será Pedra no Sapato da Presidente," *Folha de São Paulo*, November 20, 2010; Otávio Cabral, "A Digestão do Poder," *Veja*, July 29, 2009.

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

²³ Juan Arias, "El Ala Izquierda del PT Crítica la Política de Austeridad de Rousseff," *El País* (Argentina), March 1, 2011; "Deep Differences Surface in Brazil's Dilma Rousseff Ruling Coalition," *MercoPress*, May 30, 2011; "Brazil Politics: Another Scandal, Another Casualty," *Economist Intelligence Unit*, July 14, 2011.

appears to support Rousseff's efforts, many analysts think her unwillingness to engage in the bargaining over government offices and resources typical of Brazilian coalition politics will likely inhibit the implementation of her policy agenda.²⁴

Economic Conditions

With a gross national income (GNI) of \$1.6 trillion, Brazil is the largest economy in Latin America and the eighth largest in the world.²⁵ Over the past eight years, the country has enjoyed macroeconomic stability and average annual growth of over 4%. This growth has been driven by a boom in international demand—particularly in Asia—for its commodity exports, and the increased purchasing power of Brazil's fast-growing middle class, which has added some 40 million people since 2003 and now accounts for a majority of the population.²⁶ In 2010, the value of Brazil's exports reached some \$202 billion, with top exports including commodities such as iron ore, oil, sugar, soy, chicken, and beef, as well as manufactured goods such as automobiles and aircraft. Brazil's 2010 trade surplus amounted to \$20.3 billion.²⁷ The country's current economic strength is the result of a series of policy reforms implemented over the course of two decades that reduced inflation, established stability, and fostered growth. These policies have also enabled Brazil to better absorb international shocks like the recent global financial crisis, from which Brazil emerged relatively unscathed.²⁸ Although current conditions and Brazil's recent performance suggest the country will sustain solid economic growth rates in the near term, several constraints on mid- and long-term growth remain.

Background on Reform and Stabilization

Following the return to democracy in the late 1980s and early 1990s, Brazil struggled with persistently high inflation and slow growth. In order to address these issues, the Brazilian government launched the "*Real Plan*" in 1994. The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with inflation falling from 2,730% in 1993 to 17.8% in 1995. Fernando Henrique Cardoso, who had been in charge of the *Real Plan* as finance minister, took office as president in 1995 and continued the economic reform push by privatizing state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment.

²⁴ See, for example, "É Dilma Quem tem que Assumir a Coordenação Política, Diz Lessa," *Valor Online* (Brazil), June 13, 2011; "Rousseff Refuses to Bend to Political Pressure," *Latin News Daily*, July 12, 2011; and Alexander Ragir, "Rousseff Corruption Crackdown Risks Brazil Inflation Fight as Allies Balk," *Bloomberg*, July 26, 2011.

²⁵ World Bank, "World Development Indicators," available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

²⁶ The Brazilian government breaks the population into five income classes: A, B, C, D, and E. Those in the "C" class, who earn between approximately \$770 and \$3,300 (R\$1,200-5,174) per month, now account for over half of the Brazilian population. Marcelo Cortes Neri, *Os Emergentes dos Emergentes: Reflexões Globais e Ações para a Nova Classe Média Brasileira*, Fundação Getulio Vargas, Rio de Janeiro, June 27, 2011.

²⁷ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, January 2011.

²⁸ "Brazil Takes Off," *Economist*, November 12, 2009.

Although Brazil enjoyed stronger growth rates for a few years following the *Real Plan*, macroeconomic stability remained elusive. In order to take advantage of the improved economic situation and high real interest rates, foreign investors began flooding Brazil with large capital inflows. The increase in foreign capital contributed to currency appreciation and the eventual overvaluation of the *real*. Following the 1997 East Asian and 1998 Russian financial crises, international investors began to worry about Brazil's overvalued exchange rate and substantial fiscal deficits. The Brazilian government's inability to pass legislation capable of addressing these issues sparked a massive capital flight. Brazil was forced to adopt a floating exchange rate, and the *real* lost 40% of its value.²⁹

In the aftermath of the 1998-1999 financial crisis, Brazil adopted the three main pillars of its current macroeconomic policy: a floating exchange rate, a primary budget surplus, and an inflation-targeting monetary policy. Although these policies were introduced toward the end of the Cardoso Administration, they were maintained and strengthened under President Lula and now have support across the political spectrum. Under the current policy mix, inflation has remained low and economic growth has accelerated. Likewise, public debt has declined, with Brazil repaying its \$15.5 billion debt to the International Monetary Fund (IMF) ahead of schedule in 2005, and becoming a net IMF creditor in 2009.³⁰

Global Financial Crisis

In stark contrast to previous international shocks, the recent global economic downturn has had only a limited effect on Brazil. The country experienced a brief recession in 2009, causing an economic contraction of 0.6%, before rebounding quickly with estimated growth of 7.7% in 2010.³¹ Most analysts credit Brazil's strong macroeconomic framework and the Lula Administration's timely policy response for successfully mitigating the effects of the crisis.³² As the fallout of the financial crisis spread around the world, the Brazilian government injected at least \$100 billion of additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate. President Lula also acted to boost domestic consumption in hopes of partially offsetting declines in global demand. The government mandated above-inflation increases to the minimum wage, provided temporary tax reductions, increased investments in its signature infrastructure program, and maintained its spending on social programs like *Bolsa Familia*.³³

Although Brazil recovered quickly from the financial crisis, the lingering effects of the global downturn are now presenting challenges for the country's economy. Slow growth rates have kept

²⁹ Riordan Roett, "How Reform has Powered Brazil's Rise," *Current History*, February 2010; CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

³⁰ Antonio Rodriguez, "Brazil Switches Roles with Helping Hand for IMF," *Agence France Presse*, October 5, 2009.

³¹ "Country Report: Brazil," *Economist Intelligence Unit*, January 2011.

³² See, for example, "IMF Executive Board Concludes 2010 Article IV Consultation with Brazil," *International Monetary Fund*, August 5, 2010; and Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

³³ "Brazil Economy: Bottoming Out?" *Economist Intelligence Unit*, May 7, 2009; "Will the Economy Grow in 2009?" *Latin American Economy & Business*, February 2009; "Tax Relief for the Middle Classes," *Latin American Weekly Report*, December 18, 2008.

interest rates low in Europe and the United States, which has encouraged investors looking for higher returns to flood Brazil and other developing nations with foreign capital. In addition to fueling growth, these inflows are causing excessive appreciation of local currencies.³⁴ The value of the Brazilian *real* has gained 48% against the U.S. dollar since 2009.³⁵ While this steep increase in value has boosted domestic purchasing power, it is putting inflationary pressure on the economy and hurting the competitiveness of Brazilian exports. In addition to accusing China, the United States, and others of fueling “currency wars” by engaging in monetary interventions that amount to “competitive devaluation” of their currencies,³⁶ the Brazilian government has taken a number of steps to discourage inflows of foreign capital. These include instituting a financial operations tax on foreign capital inflows, imposing reserve requirements on domestic banks’ foreign exchange positions, and taxing foreign exchange derivatives. Despite these measures, the *real* remains at a 12-year high against the U.S. dollar. Some analysts maintain that large flows of foreign capital will continue until the country brings down interest rates, which would require reducing public expenditures and reforming its fiscal system.³⁷

Potential Constraints on Growth

Brazil’s current conditions and recent economic performance suggest the country will sustain solid growth rates in the near term; however, many analysts assert that several constraints on mid- and long-term growth remain.³⁸ These include a sizeable public debt burden and fast growing private debt burden, high taxes and interest rates, low investment and savings rates, rigid labor laws, and overburdened transportation and energy infrastructure. Net public debt has been falling in recent years, but remains at 41% of gross domestic product (GDP).³⁹ At the same time, the Brazilian government has slowed the rate of debt reduction by reducing its primary fiscal surplus—the budget surplus before debt payments—to enable increased government spending.⁴⁰ According to some analysts, public expenditure is now growing faster than GDP and the quality of spending is declining. They assert that a greater percentage of public expenditure needs to be dedicated to long-term investments such as infrastructure, education, and research and

³⁴ Ian Talley, “IMF Says Capital Controls Can Slow Investment Flows in India, Brazil,” *Wall Street Journal*, January 6, 2011.

³⁵ Matthew Bristow, “Brazil Central Bank Moves to Curb Short Dollar Bets and Rein in Real Rally,” *Bloomberg*, July 10, 2011.

³⁶ Brazil was critical of the U.S. Federal Reserve’s policy of quantitative easing (QE2). For more information on the policy, see CRS Report R41540, *Quantitative Easing and the Growth in the Federal Reserve’s Balance Sheet*, by Marc Labonte; Ed Dolan, “Why Latin America Hates QE2,” *Business Insider*, January 20, 2011; “Brazil: Currency War Begins to Exact Toll,” *Latin American Weekly Report*, January 6, 2011.

³⁷ “Brazil: Reserve Requirements Will Not Weaken Real,” *Oxford Analytica*, January 11, 2011; Matthew Bristow, “Brazil Central Bank Moves to Curb Short Dollar Bets and Rein in Real Rally,” *Bloomberg*, July 10, 2011; “Brazil Taxes Derivatives to Brake Currency Rally,” *Reuters*, July 27, 2011.

³⁸ See, for example, “Prospects 2011: Brazil,” *Oxford Analytica*, November 26, 2010; World Economic Forum, *The Global Competitiveness Report 2010-2011*, Geneva, 2010; National Confederation of Industry (CNI), *Industry and Brazil: An Agenda to Grow More and Better*, Brasilia, 2010; and “Brazil: Consumer Credit Boom Raises Debt Concerns,” *Oxford Analytica*, February 10, 2011.

³⁹ “Prospects 2011: Brazil,” *Oxford Analytica*, November 26, 2010.

⁴⁰ Maria Luiza Rabello and Iuri Dantas, “IMF View of Brazil Finances is ‘Stupid,’ Mantega Says,” *Business Week*, January 28, 2011; “Brazil – Mantega’s Clever Accounting,” *Latin News Daily*, January 25, 2011.

development.⁴¹ President Rousseff has acknowledged the need for greater public investment. She intends to increase funding for education, implement a second phase of the Growth Acceleration Program—an infrastructure investment program introduced under President Lula—and offer incentives to attract significant private sector investment in roads, ports, and airports in preparation for hosting the 2014 World Cup and 2016 Olympics.⁴²

Social Indicators

Despite its fast-growing economy and large resource base, Brazil has had problems solving deep-seated social problems. The country has one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. The wealthiest 5% of the population account for some 40% of the country's wealth.⁴³ Like elsewhere in Latin America, Brazil's high inequality is partially a legacy of extreme land concentration among the country's elite. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.⁴⁴ The Brazilian government has also acknowledged that there is a racial component to inequality. 71% of Brazilians living in extreme poverty are people of African descent, or Afro-Brazilians.⁴⁵ Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities.

The Brazilian government's efforts to reduce social disparities have recently begun to demonstrate results. As late as 2005, the Organization for Economic Cooperation and Development (OECD) asserted that Brazil had not achieved the same social indicators as countries with similar income levels despite having spent the same amount or more on social programs.⁴⁶ More recent evidence, however, indicates that Brazil has made substantial progress in the last few years as a result of the country's social policies and steady economic growth. Since 2003, the percentage of the population below the poverty line has fallen from 33.2% to 22.9%, and the gap between the wealthiest 10% and poorest 10% has fallen from 23 times to 18 times.⁴⁷ Likewise, infant mortality has fallen below 23 deaths per 1,000 live births and the proportion of underweight children has fallen below 2%.⁴⁸ Transfer programs like *Bolsa Família*, which provides monthly stipends to some 13 million poor families (52 million people)⁴⁹ in exchange for

⁴¹ Paulo Vieira da Cunha and Vinod Thomas, "The Brazilian Economy: The Choices for Dilma," Remarks at the Inter-American Dialogue, Washington, DC, November 10, 2010.

⁴² "Pronunciamento da Presidenta da República, Dilma Rousseff, à Nação Brasileira, no Parlatório do Palácio do Planalto," Ministério das Relações Exteriores, January 1, 2011; Brian Ellsworth, "Brazilian Infrastructure Lags Behind the Boom," *Reuters*, November 24, 2010; "World Cup Pushes Public-Private Partnerships in Brazil," *Oxford Analytica*, April 28, 2011.

⁴³ "Brazil: Middle Class Expands but Inequality Persists," *Oxford Analytica*, February 8, 2010.

⁴⁴ "Special Report: Land Report Dilemma," *Latin America Regional Report: Brazil & Southern Cone*, December 21, 2004.

⁴⁵ Governo Federal do Brasil, Ministério do Desenvolvimento Social e Combate à Fome, *Plano Brasil Sem Miséria*, http://www.brasilemmiseria.gov.br/wp-content/themes/bsm2nd/caderno_brasil_sem_miseria.pdf.

⁴⁶ Organization for Economic Cooperation and Development, *Economic Survey of Brazil 2005*, March 2005.

⁴⁷ "Brazil: Poverty Falls, but Regional Inequities Remain," *Oxford Analytica*, June 21, 2010.

⁴⁸ "Brazil Claims it has Eradicated Extreme Poverty," *EFE News Service*, December 14, 2010.

⁴⁹ Some four million poor families exited the Bolsa Família program between 2008 and 2010. 80% of those who left did so as a result of securing higher incomes and living standards and effectively graduating from the program. "Brazil (continued...)"

ensuring that their children attend school and receive proper medical care, have been credited for much of this progress. Although such efforts likely will continue to play a major role in Brazilian social policy, many observers assert that improving the quality of social services—especially in education and healthcare—is crucial for reducing social disparities and fostering development in the long run.⁵⁰

In June 2011, President Rousseff launched an anti-poverty program known as *Brasil Sem Miséria* (Brazil Without Poverty). The program is designed to eradicate extreme poverty, which currently afflicts 16 million Brazilians, by 2014. It will increase transfer payments provided through existing programs such as *Bolsa Família*; increase access to public services such as education, electricity, health care, housing, and sanitation; and increase economic opportunities in urban and rural areas by providing access to microcredit, skills training, technical assistance, and new markets.⁵¹

Foreign Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries in economic cooperation and collective security efforts, and an emerging world power. Brazilian foreign policy has traditionally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.⁵² Adherence to these principles has enabled Brazil to maintain peaceful relations with all 10 of its neighbors⁵³ and to play a larger role in global affairs than its economic and geopolitical power would otherwise allow. Building on its traditional principles, Brazilian foreign policy under the PT administrations of Presidents Lula and Rousseff has emphasized three areas of action: (1) reinforcing relations with traditional partners such as its South American neighbors, the United States, and Europe; (2) diversifying relations by forging stronger economic and political ties with other nations of the developing world; and (3) supporting multilateralism by pushing for the democratization of global governance.⁵⁴

(...continued)

Anti-Poverty Plan Fails to Tackle Causes," *Oxford Analytica*, June 15, 2011.

⁵⁰ See, for example, "How to get Children out of Jobs and into School: The Limits of Brazil's Much Admired and Emulated Anti-Poverty Programme," *Economist*, July 29, 2010; Alexei Barrionuevo, "Educational Gaps Limit Brazil's Reach," *New York Times*, September 4, 2010; and "Resuscitating Brazil's Health," *Latin News Daily*, November 8, 2010.

⁵¹ Governo Federal do Brasil, Ministério do Desenvolvimento Social e Combate à Fome, *Plano Brasil Sem Miséria*, http://www.brasilemmiseria.gov.br/wp-content/themes/bsm2nd/caderno_brasil_sem_miseria.pdf.

⁵² Georges D. Landau, "The Decision Making Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

⁵³ In addition to bordering nine of the eleven other independent countries in South America, Brazil borders French Guiana—a territory of France (see **Figure 1**, for a map of Brazil and its neighbors).

⁵⁴ "Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty," Ministério das Relações Exteriores, January 2, 2011; "Brazil has Become the 'Unavoidable Partner' in the Global Decision-Making Process," *MercoPress*, December 14, 2010.

Regional Policy

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

South American Integration

In 1991, Brazil joined with Argentina, Uruguay, and Paraguay to establish the Common Market of the South (Mercosur), an organization intended to promote economic integration and political cooperation among the countries.⁵⁵ Although the member states have been able to achieve consensus on a number of political issues, progress on the economic front has been slow. The Mercosur pact calls for an incremental path to full economic integration, yet only a limited customs union has been achieved in its 20-year existence. The member states finally agreed on long-stalled issues such as a common customs code and the elimination of double tariffs on non-Mercosur goods transported between countries in August 2010;⁵⁶ however, a number of other issues like the dispute resolution process and trade asymmetries still need to be addressed.⁵⁷ Chile, Bolivia, Colombia, Ecuador, Peru, and Venezuela have all become associate members⁵⁸ of Mercosur, and Brazil has advocated full membership for each country.⁵⁹

The ongoing problems with Mercosur have not prevented Brazil from pushing for broader regional integration. In 2008, all 12 independent countries of South America joined together to form the Union of South American Nations (Unasur).⁶⁰ Primarily a political body, Unasur has served as a forum for dispute resolution and the formation of common policy positions. With Brazil playing an influential role, the organization helped resolve political conflicts in Bolivia in

⁵⁵ For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

⁵⁶ "Mercosur Wraps Up Successful Summit," *EFE News Service*, August 3, 2010; "Las Reglas Comerciales Comunes Tendrán que ser Ratificadas por el Congreso de Cada Socio; Aprobaron el Código que Regirá el Comercio Dentro del Mercosur," *Clarín*, August 4, 2010.

⁵⁷ "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

⁵⁸ Associate members have no voting rights and need not observe Mercosur's common external tariff. Venezuela will be a full member once its accession is ratified by the Paraguayan legislature.

⁵⁹ Juliana Rocha, "Colômbia Negocia Sua Adesão ao Mercosul," *Folha de São Paulo*, January 20, 2011; "Lula Defiende Adhesión de Bolivia, Chile, Colombia, Ecuador y Perú a Mercosur," *EFE News Service*, December 20, 2010.

⁶⁰ The treaty establishing Unasur entered into force on November 30, 2010, when Uruguay became the ninth country to approve its ratification. "Uruguay Ratificó Tratado de la Unasur, que Completa Nueve Adhesiones," *Agence France Presse*, November 30, 2010.

2008 and Ecuador in September 2010, and took a strong stance against the ouster of the president of Honduras in 2009.⁶¹ Brazilian diplomacy also successfully convinced each of the Unasur member states to join the associated South American Defense Council, designed to boost regional cooperation on security policies.⁶² Within the council, South American countries have discussed defense spending and reviewed defense agreements with extra-regional powers, such as a proposal to provide the United States access to seven Colombian military bases.⁶³ Notwithstanding its many successes, Unasur's capacities are limited. Member states are reluctant to cede authority to the organization, it has largely been unable to mediate disputes when there is no regional consensus, and it is heavily reliant on presidential diplomacy since it lacks strong formal institutions.⁶⁴

By promoting integration through organizations like Mercosur and Unasur, Brazil has been able to solidify its role as a regional power. These organizations provide forums in which Brazil can exercise leadership and build broad support for its positions on regional and global issues. Likewise, the successes of Mercosur and Unasur have instilled a confidence in South American nations that the region can resolve internal problems without having to turn to extra-regional powers, such as the United States. Nonetheless, it is unclear if Brazil is willing to accept the costs and responsibilities associated with regional leadership. Although the country has shouldered the burden for multilateral integration efforts, such as providing 70% of the annual budget for Mercosur's Structural Convergence and Institutional Strengthening Fund,⁶⁵ it has been less willing to make unilateral concessions to foster development and good will among its neighbors. For example, when Lula agreed to pay Paraguay a higher price for energy generated by a jointly owned hydroelectric plant in July 2009, he was heavily criticized by some within Brazil and the Brazilian Congress blocked the agreement until May 2011.⁶⁶ Given that the country is still resolving its own economic and social problems, it may be difficult to convince the Brazilian population that the somewhat intangible benefits of regional leadership outweigh the very visible costs.⁶⁷

Expansion of Influence into Central America and the Caribbean

In addition to consolidating its power within South America, Brazil has sought to expand its influence in the broader region by increasing its engagement in the Caribbean and Central America. Brazil has taken on considerable responsibilities in Haiti, where it has commanded the U.N. Stabilization Mission (MINUSTAH) since 2004. Some 10,000 Brazilian military personnel

⁶¹ "Unasur Assigns Itself Some Authority," *Latin News Daily*, November 26, 2010.

⁶² "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

⁶³ "Brasil Propondrá Creación de un Consejo de Paz y Seguridad de la Unasur," *EFE News Service*, January 13, 2010.

⁶⁴ Andrés Serbin and Peter Hakim, "The Union of South American Nations (UNASUR)," Remarks at the Inter-American Dialogue, Washington, DC, November 23, 2009; "Latin America: Regional Tensions Challenge UNASUR," *Oxford Analytica*, August 21, 2009.

⁶⁵ "Brazil Invested 1.7bn Dollars in International Cooperation 2005-2009," *BBC Monitoring*, January 14, 2011.

⁶⁶ "Lula Criticised for 'Partisan' Foreign Policy," *Latin American Weekly Report*, January 22, 2009; Pedro Servin, "Paraguay-Brazil Energy Treaty Going Nowhere Fast," *Associated Press*, December 16, 2009; Juliette Kerr, "Brazil – Paraguay: Brazilian Congress Concludes Voting on Accord Altering Payment Terms for Itaipu Hydroelectric Plant," *IHS Global Insight*, May 12, 2011.

⁶⁷ "Brazil Eager to be a Force of Change and Moderation," *Deutsche Welle*, December 30, 2010.

have rotated through the country since the start of MINUSTAH, and with 2,200 officers and soldiers currently on the ground, Brazil is the largest peacekeeping contingent in Haiti.⁶⁸ Brazil is also increasingly providing Caribbean and Central American nations with humanitarian and technical assistance. Between 2005 and 2009, Cuba, Haiti, and Honduras were three of the top four recipients of Brazilian humanitarian assistance, receiving over \$50 million (R\$79 million) combined.⁶⁹ Technical assistance has taken many forms, such as so-called “ethanol diplomacy,” in which Brazil has signed bio-fuels partnership agreements with countries that would otherwise be dependent on expensive oil imports.⁷⁰ Moreover, Brazil has become a regional observer of the Central American Integration System (SICA), promoted a trade agreement between SICA and Mercosur, and supported the creation of a regional group known as the Community of Latin American and Caribbean States, which includes all of the countries of the hemisphere except Canada and the United States. Although Brazil has certainly become much more visible as a result of these efforts, most analysts assert that country’s influence in Central America and the Caribbean remains limited.⁷¹

Emerging Global Role

As Brazil’s economy has grown to be the eighth largest in the world, the country has utilized its growing economic clout to assert Brazilian influence on a range of global matters. On global trade and financial issues, where Brazil’s economic weight ensures the country a principal role in policy discussions, Brazil has sought to coordinate with, and represent, other developing nations. This has coincided with a broader focus on “South-South” cooperation, in which Brazil has expanded diplomatic and commercial ties with countries throughout the developing world. With its increasing international prominence, Brazil has pushed for a democratization of global governance institutions and a greater role for emerging powers in resolving issues of geopolitical importance. Although few analysts deny that Brazil’s international stature has risen significantly over the past decade, many believe that the country must overcome considerable challenges to be considered a world power.⁷² These include undertaking reforms to maintain its current economic trajectory, addressing long-standing domestic security challenges, and modernizing and expanding its military capacity.

⁶⁸ Brazil lost 18 soldiers and two civilians in the January 2010 Haitian earthquake. “Brasil Pide Compromiso Renovado de Comunidad Internacional con Haití,” *Agence France Presse*, January 12, 2011; Wilson Tosta and Glauber Goncalves, “Ex-Comandante Defende que Exército Continue no Haiti,” *Estado de São Paulo*, November 5, 2010.

⁶⁹ Instituto de Pesquisa Econômica Aplicada (IPEA), *Cooperação Brasileira Para o Desenvolvimento Internacional: 2005-2009*, Brasília, December 2010.

⁷⁰ “Chávez, Lula Promote Competing Visions,” *Miami Herald*, August 10, 2007.

⁷¹ See, for example, Peter Hakim, “Rising Brazil: the Choices Ahead,” *Cuadernos de la Fundacion M.Botin*, February 22, 2010; “Brazil is Challenging Mexico and U.S. Domination of Isthmus,” *Latin America Data Base, NotiSur*, June 11, 2009; and Andres Oppenheimer, “Brazil Stretching Clout to Central America,” *Miami Herald*, June 7, 2009.

⁷² See, for example, Julia Sweig, “A New Global Player,” *Foreign Affairs*, Nov/Dec. 2010; Hal Brands, *Dilemmas of Brazilian Grand Strategy*, U.S. Army War College, Strategic Studies Institute, Carlisle, PA, August 2010; Peter Hakim, “Rising Brazil: The Choices of a New Global Power,” *Política Externa*, July 1, 2010; and “Geopolitical Diary: A Boost for Brazil’s Military,” *STRATFOR*, December 24, 2008.

South-South Ties

Brazilian foreign policy under the PT administrations of Presidents Lula and Rousseff has prioritized relations with nontraditional partners in the developing world, or “South-South” ties. During the Lula Administration, the country significantly expanded its diplomatic presence in the developing world, opening 37 new embassies and 25 new consulates.⁷³ Brazil also increased its international development assistance, which totaled \$362 million (0.02% of GDP) in 2009. The majority of Brazil’s aid has gone to Latin America, the Caribbean, and Africa—with a special emphasis on fellow Portuguese-speaking nations. It includes humanitarian assistance and technical cooperation focused in sectors where Brazil has been particularly effective domestically, such as poverty reduction, tropical agriculture and biofuels production, and the prevention and treatment of HIV/AIDS and tropical diseases.⁷⁴ These diplomatic and development ties have coincided with increased commercial relations. While Brazil’s total world trade expanded by over 350% between 2002 and 2010, trade with Africa and Latin America and the Caribbean expanded by nearly 400%; trade with India grew by over 600%; and trade with China grew by nearly 1,400%. China is now Brazil’s top trading partner, with total trade valued at \$56.4 billion.⁷⁵

Brazil’s focus on forging South-South ties under the PT has been criticized by a number of analysts within and outside the country. Former Brazilian Ambassador to the United States Roberto Abdenur claimed that the South-South approach of the Brazilian Foreign Ministry indoctrinates Brazilian diplomats with “anti-imperialist” and “anti-American” attitudes. He also criticized Lula for embracing autocratic leaders and failing to speak up for democracy and human rights.⁷⁶ Another former Ambassador to Washington, Rubens Barbosa, has argued that while the PT’s foreign policy has increased Brazil’s international influence, it has not been very cost-effective in delivering concrete results. He also maintains that Brazil should devote the same amount of attention to relations with developed nations as it has devoted to South-South ties.⁷⁷ Officials from the current and previous Brazilian administrations assert that increased South-South ties have not come at the expense of relations with the developed world. Moreover, they assert that while Brazil supports the spread of democracy and human rights, it believes singling out countries with confrontational declarations and policies is counterproductive.⁷⁸

Democratization of Global Governance

Building off its traditional support for multilateralism and its more recent focus on South-South ties, Brazil has sought to reinvigorate multilateral institutions by making them more representative of the current geopolitical situation. Brazilian officials assert that the world is becoming multipolar, and global governance institutions—including the International Monetary

⁷³ Larry Luxner, “Basking in Global Clout, Brazil Ponders Life After Lula,” *Washington Diplomat*, September 2010.

⁷⁴ Instituto de Pesquisa Econômica Aplicada (IPEA), *Cooperação Brasileira Para O Desenvolvimento Internacional: 2005-2009*, Brasília, D.F., December 2010.

⁷⁵ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2011.

⁷⁶ Diego Schelp, “Diplomacia de Palanque,” *Veja*, September 8, 2010; Otávio Cabral, “Nem na Ditadura,” *Veja*, February 7, 2007.

⁷⁷ Rubens Barbosa, “Sobre uma Nova Política,” *O Globo* (Brazil), October 26, 2010.

⁷⁸ “Ministro Patriota Faz Seu Primeiro Discurso no Itamaraty,” Ministério das Relações Exteriores, January 2, 2011; Susan Glasser, “The Soft-Power Power,” *Foreign Policy*, December 2010.

Fund (IMF), the Group of Eight (G8), and the U.N. Security Council—lack legitimacy and efficacy since they are no longer representative of the global balance of power.⁷⁹ In order to address these issues, Brazil has joined with other emerging and developing nations to push for reform. These coalitions include more formal organizations, like the Brazil-Russia-India-China-South Africa (BRICS) group and the India-Brazil-South Africa (IBSA) forum, as well as ad hoc arrangements.

Brazil's efforts have produced mixed results. On the one hand, the country has been successful in securing agreements to redistribute voting power within the IMF and replace the G8 with the more representative G20 as the premier forum for international economic coordination. Likewise, emerging nation coalitions have succeeded in blocking U.S. and European Union attempts to conclude international agreements, such as the Doha trade negotiations and the Copenhagen climate negotiations, without addressing developing nation demands.⁸⁰ Efforts to enlarge and reform the U.N. Security Council, however, have been unsuccessful.⁸¹ Some observers have expressed concerns that, by pushing for greater decision-making authority without being prepared for the corresponding responsibilities of leadership, the actions of Brazil and other emerging powers could create instability within the world system.⁸²

In addition to seeking greater influence within global governance institutions, Brazil has pushed for a greater role in resolving issues of geopolitical importance. During the Lula Administration, Brazil was somewhat critical of the U.S. role in the Middle East, arguing that the U.N. should oversee negotiations between Israel and the Palestinians and emerging powers should be more involved.⁸³ Brazil hosted the presidents of Israel and the Palestinian National Authority, and suggested that it might be able to act as a mediator in the conflict. Brazil also recognized Palestine as an independent state within its 1967 borders, setting off a wave of similar recognitions throughout South America.⁸⁴ The country has continued to play an active role under President Rousseff, who has designated Lula as Brazil's special envoy to negotiate the official recognition of Palestine at the U.N. among the Group of 77 developing and emerging countries.⁸⁵

Additionally, Brazil became involved in discussions regarding Iran's nuclear program. In May 2010, President Lula worked with his Turkish counterpart, Prime Minister Erdoğan, to negotiate a nuclear swap deal with Iran that was similar to a deal put forward by the International Atomic Energy Agency (IAEA) in October 2009. The Brazilians saw the agreement as a confidence-

⁷⁹ Meeting with official from Brazil's Ministry of External Relations, Financial Affairs Office, December 8, 2010; Celso Amorim, "Governance Must Reflect Global Reality," *Financial Times*, November 15, 2010.

⁸⁰ Celso Amorim, "The New Geopolitics: Emerging Powers and the Challenges of a Multipolar World," Remarks at the Carnegie Endowment for International Peace, Washington, DC, November 30, 2010; "Voting Power Shift Just Start of IMF Reform, Says Chinese Official," *BBC Monitoring*, November 5, 2010.

⁸¹ William Maclean, "Brazil Says US Spat Signals Tough Security Reform," *Reuters*, September 11, 2010.

⁸² Jorge G. Castañeda, "Not Ready for Prime Time," *Foreign Affairs*, vol. 89, no. 5 (September/October 2010); Andrew F. Hart and Bruce D. Jones, "How Do Rising Powers Rise?," *Survival*, vol. 52, no. 6 (November 29, 2010).

⁸³ Iuri Dantas and Fabiola Moura, "Lula Says U.S. Shouldn't Broker Middle East Talks," *Bloomberg*, November 20, 2009.

⁸⁴ "Brazilian Minister on Middle East Role," *BBC Monitoring*, January 4, 2010; Sean Goforth, "Brazil's Middle East Roadmap," *World Politics Review*, January 20, 2011.

⁸⁵ "Brazil Negotiates Palestine UN Recognition Endorsement within the Group of 77," *Palestine News Network*, July 26, 2011.

building measure to bring Iran back to the negotiating table; however, the Obama Administration and European nations dismissed the agreement as a delaying tactic, and decided to push ahead with sanctions. Brazil then voted against the U.N. Security Council resolution to impose sanctions, saying the council had “lost a historic opportunity to peacefully negotiate the Iranian nuclear program.”⁸⁶ Nonetheless, Brazil has agreed to abide by the sanctions.⁸⁷

Relations with the United States

Relations between Brazil and the United States are generally friendly. The United States increasingly regards Brazil as a significant power, especially in its role as a stabilizing force in Latin America. The Obama Administration’s National Security Strategy states that the United States “welcome[s] Brazil’s leadership and seek[s] to move beyond dated North-South divisions to pursue progress on bilateral, hemispheric, and global issues.”⁸⁸ Brazil and the United States have worked closely on a wide range of issues, from promoting bio-fuels development in the Western Hemisphere and Africa (see “Ethanol and Other Biofuels”) to providing security and fostering development in Haiti.

Although Brazil and the United States share a number of common goals, the countries’ independent foreign policies have led to periodic disputes on trade and political matters. Some long-running disputes include Brazil’s opposition to the U.S. tariff on Brazilian ethanol and the stalled Doha Round of World Trade Organization negotiations. Additional differences have emerged in recent years, perhaps the most high profile of which centered on policy toward Iran. After Brazil and Turkey negotiated a nuclear swap agreement with Iran in May 2010, the United States rejected it as insufficient and pushed ahead with a new round of sanctions.⁸⁹ Leaders in both countries have sought to improve relations since President Rousseff’s inauguration, with Rousseff indicating that building stronger relations with the United States will be one of the priorities of her administration, and President Obama visiting Brazil on his first trip to South America in March 2011.⁹⁰ Some analysts assert that Brazil’s increasing global prominence and involvement on an array of issues will inevitably lead to disputes with the United States and that managing those disputes in a transparent and respectful manner will be key to maintaining friendly relations moving forward.⁹¹

⁸⁶ Trita Parsi, “The Turkey-Brazil-Iran Deal: Can Washington Take ‘Yes’ for an Answer?” *Foreign Policy*, May 17, 2010; “Unexpected US Opposition Overshadows Lula’s Successful Iran Nuclear Deal,” *Latin American Security & Strategic Review*, May 2010; “Brazil’s Lula Says UN Sanctions a Mistake,” *Latin News Daily*, June 10, 2010.

⁸⁷ “Brazil Will Back Iran Sanctions,” *Al Jazeera English*, August 11, 2010.

⁸⁸ White House, *National Security Strategy*, May 2010, p. 44.

⁸⁹ “Unexpected US Opposition Overshadows Lula’s Successful Iran Nuclear Deal,” *Latin American Security & Strategic Review*, May 2010; “Brazil’s Lula Says UN Sanctions a Mistake,” *Latin News Daily*, June 10, 2010.

⁹⁰ Lally Weymouth, “An Interview with Dilma Rousseff, Brazil’s President-Elect,” *Washington Post*, December 3, 2010; Natuza Nery, “Por Nova Relação, Obama Deve Visitar Brasil em Março,” *Folha de São Paulo*, January 25, 2011.

⁹¹ See, for example, Tom Shannon, “Prospects for U.S.-Brazil Bilateral Relations,” Remarks at Brazil-U.S. Business Council Annual Plenary Meeting, December 7, 2010; and Peter Hakim, “US-Brazil Relations: Expect More Conflict,” *Infolatam*, October 21, 2010.

As a middle-income country, Brazil does not receive large amounts of U.S. foreign assistance. Brazil received \$21.5 million in U.S. aid in FY2009 and \$25.1 million in FY2010. The Obama Administration requested \$20.9 million for Brazil in FY2011⁹² and \$18.3 million in FY2012. U.S. assistance priorities in Brazil include supporting environmental programs and strengthening local capacity to address threats to the Amazon, promoting renewable energy and energy efficiency to mitigate climate change, strengthening the professionalism and peacekeeping capabilities of the Brazilian military, and reducing the transmission of communicable diseases.⁹³ In June 2011, legislation (H.R. 2246, T. Ryan) was introduced that would suspend foreign assistance to Brazil until the country amends its constitution to allow for the extradition of its citizens.

Selected Issues in U.S.-Brazil Relations

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

Counternarcotics

Although Brazil is not a major drug-producing country, it is the largest drug-consuming country in South America and serves as a transit country for illicit drugs from neighboring Andean countries destined primarily for Europe. Large and organized networks of violent criminal gangs such as the First Capital Command (*Primeiro Comando da Capital*, PCC) and the Red Command (*Comando Vermelho*, CV) control drug distribution in Brazilian cities and have a growing presence in neighboring countries, such as the marijuana-producing regions along the Paraguayan-Brazilian border. The gangs, which use drug proceeds to purchase weapons and tighten their control over urban areas, have also taken on greater roles in weapons smuggling.⁹⁴

Brazil has taken several steps to improve its counternarcotics capabilities. In 2004, it implemented an Air Bridge Denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also increased its border presence, worked with its neighbors to construct Joint Intelligence Centers at strategic points, 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 2010, Brazil's federal police captured 22.2 metric tons of cocaine and crack, 138.3 metric tons of marijuana, and 33,542 stamps of LSD (lysergic acid diethylamide).⁹⁵

⁹² Although the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) was signed into law on April 15, 2011, country-specific funding levels are not yet available.

⁹³ U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2011*, February 1, 2010; and *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011.

⁹⁴ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2011 International Narcotics Control Strategy Report*, March 3, 2011; "Renewed Awareness of Brazilian Gang Threat," *Latin News Daily*, May 18, 2011.

⁹⁵ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2011 International* (continued...)

The United States and Brazil cooperate on counternarcotics issues in a number of ways. U.S. counternarcotics assistance provides training for Brazilian law enforcement, assists interdiction programs at Brazil's international airports, supports drug prevention programs, and is designed to improve Brazil's capacity to dismantle criminal organizations. Brazil received \$1 million in U.S. counternarcotics assistance in FY2009 and \$1 million again in FY2010. Under the Obama Administration's requests, Brazil would receive \$1 million in FY2011⁹⁶ and \$3.9 million in FY2012.⁹⁷ Brazil has also served as a bridge between the United States and Bolivia, which expelled the Drug Enforcement Agency (DEA) from its territory in 2008 as a result of alleged interference in the country's internal affairs. Under a proposed trilateral anti-drug cooperation agreement, the United States and Brazil reportedly will provide training and purchase satellite equipment to aid coca eradication efforts in Bolivia. The agreement also calls for the establishment of a U.N. and Unasur-supported South American center for anti-narcotics training in Bolivia.⁹⁸

Counterterrorism and the Tri-Border Area⁹⁹

The Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay has long been used for arms smuggling, money laundering, and other illicit purposes. According to the State Department Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds through illicit activities and from sympathizers in the sizable Middle Eastern communities in the region. Indeed, reports have indicated that Hezbollah earns over \$10 million per year from criminal activities in the TBA.¹⁰⁰ Although it has been reported that al Qaeda's former operations chief, Khalid Shaikh Mohammed, lived in the Brazilian TBA city of Foz de Iguazu in 1995 and Brazilian authorities arrested Ali al-Mahdi Ibrahim—who was wanted by Egypt for his alleged role in the 1997 massacre of tourists at Luxor—in the TBA in 2003, the State Department report states that there have been no corroborated reports that any Islamic groups have an operational presence in the area.¹⁰¹ The United States joined with the countries of the TBA in the "3+1 Group on Tri-Border Area Security" in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

The United States has also worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos. In 2010, Brazil

(...continued)

Narcotics Control Strategy Report, March 3, 2011.

⁹⁶ Although the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) was signed into law on April 15, 2011, country-specific funding levels are not yet available.

⁹⁷ U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2011*, February 1, 2010; and *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011.

⁹⁸ "US to Fund Bolivia-Brazil Initiative," *Latin News Daily*, April 21, 2011.

⁹⁹ For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

¹⁰⁰ 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.

¹⁰¹ "Latin America: A Safe Haven for Al Qaeda?" *STRATFOR*, September 4, 2003; U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

and the United States signed a Defense Cooperation Agreement and gave initial approval to an Open Skies agreement that would safeguard aviation security.¹⁰² While the State Department Country Reports on Terrorism lauded the Brazilian government for a number of counterterrorism actions, it also noted that Brazil's overall commitment to combating terrorism was undermined by the government's failure to strengthen its legal counterterrorism framework by passing long-stalled anti-money laundering and counterterrorism bills.¹⁰³ 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.¹⁰⁴ 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.¹⁰⁵

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 75% of its electricity through hydropower.¹⁰⁶ 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.¹⁰⁷

Ethanol and Other Biofuels¹⁰⁸

Brazil stands out as an example of a country that has become a net exporter of energy, partially by increasing its use and production of ethanol. In response to sharp increases in oil prices, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol in 1975. Today, Brazil produces almost 27.8 billion liters (7.3 billion gallons) of ethanol annually. About 17% of the ethanol produced in Brazil is exported, and the remainder

¹⁰² U.S. Department of State, Office of the Spokesman, "U.S.-Brazil Defense Cooperation Agreement," April 12, 2010; and "United States and Brazil Agree on Open Skies," December 6, 2010.

¹⁰³ U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

¹⁰⁴ "Anti-Terrorism Law Project Scrapped," *Latin American Security & Strategic Review*, January 2008.

¹⁰⁵ 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.

¹⁰⁶ "Brazil: Electricity Faces Distribution Difficulties," *Oxford Analytica*, March 24, 2011.

¹⁰⁷ "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

¹⁰⁸ For more information, see CRS Report R41282, *Agriculture-Based Biofuels: Overview and Emerging Issues*, by Randy Schnepf and CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

is consumed domestically.¹⁰⁹ Within Brazil, pure ethanol is available at nearly every fueling station and gasoline is required to include a 25% ethanol blend. About 90% of new cars sold in Brazil each year are fitted with “flex-fuel” engines capable of running on fuel blends ranging from pure ethanol to pure gasoline. As a result, ethanol now accounts for over half of all fuel pumped in Brazil.¹¹⁰

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.¹¹¹

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in the Dominican Republic, El Salvador, and Haiti. In November 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.¹¹² To build on these efforts, President Obama and President Rouseff agreed to commit \$3 million to support the development of legal regimes and domestic biofuels production in the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal during President Obama’s March 2011 trip to Brazil.¹¹³ The United States and Brazil are also working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform.

Despite this progress, several potential obstacles to increased U.S.-Brazil cooperation on biofuels exist, including current U.S. tariffs on most Brazilian ethanol imports. The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.¹¹⁴ 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% ad valorem tariff.

¹⁰⁹ Brazilian Sugarcane Industry Association (UNICA), “Quotes & Stats,” available at <http://english.unica.com.br/dadosCotacao/estatistica/>.

¹¹⁰ Katia Cortes, “Brazil to Raise Ethanol Mixed with Gasoline to 25%,” *Bloomberg*, April 29, 2010; Chris Kraul, “Brazil Raises Cane Over U.S. Ethanol Barriers; Proponents Say Sugar-Based Fuel is a Better Choice than Corn,” *Los Angeles Times*, November 4, 2009; “Brazil: Long-term Ethanol Outlook Remains Bright,” *Oxford Analytica*, October 6, 2009.

¹¹¹ 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.

¹¹² 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.

¹¹³ White House, Office of the Press Secretary, “Fact Sheet: U.S.-Brazil Strategic Energy Dialogue,” March 19, 2011.

¹¹⁴ For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.

Nuclear Energy

Between the mid-1970s and the mid-1980s, Brazil's military government sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. Brazil's 1988 constitution limits nuclear activity to peaceful purposes, however, and in 1991, Brazil and Argentina reached an agreement not to pursue nuclear weapons. Although Brazil subsequently joined the Nuclear Nonproliferation Treaty (NPT) and a number of other multilateral nonproliferation regimes, some international observers became concerned when Brazil commissioned a uranium enrichment plant in 2004 and refused to give International Atomic Energy Association (IAEA) inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel, and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.¹¹⁵ Brazil remains opposed to signing the NPT Additional Protocol, which would grant IAEA inspectors increased access to its nuclear program.¹¹⁶

Although Brazil currently has just two operational nuclear power plants, the industry is expected to expand. Construction of a third nuclear plant was approved under the Lula Administration, and the current minister of mines and energy has announced plans to approve four additional plants within the next year. The minister has asserted that the expansion of nuclear power is the only way that Brazil can meet the fast-growing energy demand of its population while avoiding massive carbon emissions.¹¹⁷ Brazil has 139,900-278,700 metric tons of unidentified uranium resources.¹¹⁸

Oil

The recent discovery of substantial oil fields in the Santos Basin, which extends 500 miles along the Brazilian coast, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The Tupi field, discovered in November 2007, has confirmed oil reserves of between 5 billion and 8 billion barrels, and it is estimated that the entire Santos Basin may hold 50 billion barrels of oil. In December 2010, the Brazilian Congress approved a new regulatory framework for developing the offshore reserves that will increase the state's role in hopes of using the resources to fuel long-term economic and social development. Among other provisions, the framework establishes state-owned *Petróleo Brasileiro S.A.* (Petrobras) as the sole operator for all new offshore projects; replaces the existing concessionary

¹¹⁵ "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.

¹¹⁶ Bernard Gwertzman, "Brazil's Take on Iran and the NPT," *Council on Foreign Relations*, May 19, 2010.

¹¹⁷ "Brazil Eletrobras Expects \$2 Bln Loan for Nuclear," *Reuters*, January 18, 2011; "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report: Brazil & Southern Cone*, November 2008.

¹¹⁸ *Uranium 2009: Resources, Production and Demand*, Organization for Economic Cooperation and Development Nuclear Energy Agency & the International Atomic Energy Agency, 2010.

model with a production sharing regime; guarantees Petrobras a minimum 30% stake in all new joint ventures; creates a new public company—Petrosal—to manage the development of the offshore reserves; and creates a new social fund overseen by Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.¹¹⁹

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. In July 2010, Petrobras announced a five-year, \$225 billion investment plan, 57% of which is to be spent on energy exploration.¹²⁰ Some foreign investors have questioned whether the company will be able to access sufficient finance given the enlarged role of the Brazilian government under the new regulatory framework and increased concerns about offshore oil drilling as a result of the 2010 BP oil spill in the Gulf of Mexico.¹²¹ Other analysts maintain that the Brazilian reserves are becoming ever-more attractive as a result of the rising price of oil and Brazil’s political stability at a time of conflict in other oil producing nations.¹²²

In April 2009, the Export-Import Bank of the United States formally offered to consider up to \$2 billion in financing to secure the purchase of U.S. goods and services by Petrobras. According to the Bank, \$2 billion in purchases would help create and maintain over 16,000 U.S. jobs. The Bank has approved \$300 million in financing so far, and has told Petrobras that it would consider increasing its offer above \$2 billion if requested.¹²³

Trade Issues

Trade issues are central to the bilateral relationship between Brazil and the United States. Both countries have been heavily involved in subregional, regional, and global trade talks; however, they have frequently disagreed on the substance of trade agreements. In 2005, opposition from Brazil and other South American countries effectively killed the U.S.-backed Free Trade Area of the Americas (FTAA). Since then, the United States has pushed for bilateral and subregional free trade agreements while Brazil has focused its efforts on strengthening the Common Market of the South (Mercosur). During President Obama’s March 2011 visit to Brazil, the United States and Brazil concluded an Agreement on Trade and Economic Cooperation. The Agreement creates a new bilateral trade dialogue designed to foster deeper cooperation on issues such as intellectual property rights, trade facilitation, and technical barriers to trade.¹²⁴

¹¹⁹ “Brazil Congress Passes Oil Industry Overhaul,” *Reuters*, December 1, 2010; “The Impact of Pre-Salt: A Long-Term Perspective,” *Oxford Analytica*, May 2010.

¹²⁰ “Brazil Needs \$270 Bln Over 10-Yrs for Deepwater Oil,” *Reuters*, March 19, 2009.

¹²¹ “Brazil’s Golden Times Start to Roll,” *Latin News Daily*, September 3, 2008; “Hydrocarbons Potential Poses Major Challenges,” *Oxford Analytica*, November, 20, 2007; “Brazil Industry: Petrobras Under Pressure,” *Economist Intelligence Unit*, August 26, 2010.

¹²² Danielle Nogueira and Ramona Ordonez, “Conflitos no Oriente Médio Tornam Pré-Sal Mais Atraente,” *O Globo Online* (Brazil), March 2, 2011.

¹²³ Export-Import Bank of the United States, “Facts About Ex-Im Bank Loans to Support Petrobras’s Purchases of Goods and Services Made by American Workers,” May 27, 2011, <http://www.exim.gov/brazil/petrobasfacts.cfm>.

¹²⁴ White House, Office of the Press Secretary, “Strengthening the U.S.-Brazil Economic Relationship,” March 19, 2011.

Total trade between the United States and Brazil totaled \$46.3 billion in 2010, an increase of nearly 30% over 2009. U.S. exports to Brazil were valued at \$27 billion while U.S. imports from Brazil were valued at \$19.3 billion. The United States is now Brazil's second-largest trading partner and Brazil is the 11th-largest trading partner of the United States.¹²⁵ Brazil has traditionally benefited from the Generalized System of Preferences (GSP), which provides duty-free tariff treatment to certain products imported from developing countries; however, GSP expired on December 31, 2010.¹²⁶

Doha Round of the World Trade Organization Talks¹²⁷

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 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 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.¹²⁸

World Trade Organization Cotton Dispute¹²⁹

Over the past eight years, Brazil and the United States have been involved in a dispute over U.S. subsidies for cotton farmers. In 2002, Brazil went to the WTO to challenge several provisions of the U.S. cotton program. A WTO dispute settlement panel ruled in Brazil's favor in 2004, finding that certain U.S. agricultural support payments and export guarantees were inconsistent with its WTO commitments. Although Congress modified agricultural support programs in 2005, a WTO compliance panel ruled in 2007 that the U.S. actions were insufficient.¹³⁰ Following a ruling from a WTO arbitration panel, Brazil announced in March 2010 that it intended to impose retaliatory measures against the United States worth \$829 million, including \$591 million in higher tariffs on a range of U.S. products and \$239 million through suspension of certain intellectual property rights obligations.

¹²⁵ Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2011.

¹²⁶ For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones

¹²⁷ For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

¹²⁸ "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.

¹²⁹ For more information on the U.S.-Brazil WTO cotton dispute, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* by Randy Schnepf.

¹³⁰ "WTO Tells U.S. to Act on Illegal Cotton Subsidies," *Financial Times*, December 19, 2007.

In order to avoid retaliatory measures, the United States reached an agreement with Brazil in June 2010. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress has an opportunity to adjust the subsidy program in the 2012 farm bill.¹³¹

In June 2011, the House passed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2012 (H.R. 2112). The Act includes a provision (H.Amdt. 454) that would prevent any funds made available under the Act from being used to provide payments to the Brazil Cotton Institute. If this provision were to become law, the United States would be brought into noncompliance with the terms of the agreement signed by both parties in June 2010.

Intellectual Property Rights

Brazil and the United States have periodically engaged in disputes over intellectual property rights. One issue of particular concern to the U.S. government has been Brazil's threats to issue compulsory licenses for patented pharmaceutical products. Internationally recognized as having one of the world's most successful HIV/AIDS programs,¹³² Brazil has guaranteed its citizens universal free access to antiretroviral therapy (ART) since 1996. In 2001, Brazil decided to develop generic ART drugs under the compulsory licensing provision of its patent law, thereby reducing treatment costs by 80%. In response, the United States submitted a complaint to the WTO—which was later withdrawn—asserting that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In 2003, the WTO temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). The waiver was made permanent in 2005.¹³³

Since the public health exception to the TRIPS rules was made permanent, Brazil has issued, or threatened to issue, compulsory licenses on patented pharmaceutical products on several occasions. In 2007, Brazil broke a patent on a drug used to treat HIV/AIDS that is produced by Merck & Co. in order to import a cheaper version from India. In 2009, Brazil suggested that developing countries should be allowed to lift patent rights to produce more vaccine to battle the

¹³¹ Swell Chan, "U.S. and Brazil Reach Agreement on Cotton Dispute," *New York Times*, April 6, 2010; Ana Nicolaci da Costa, "Brazil Suspends Retaliation in U.S. Cotton Row," *Reuters*, June 17, 2010.

¹³² Universal free access to ART has increased average HIV/AIDS survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996. HIV prevalence has been stable at 0.5% for the general population in Brazil since 2000. Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

¹³³ Mary Anastasia O'Grady, "Brazil Could Turn a Trade Victory into Defeat," *Wall Street Journal*, December 16, 2005.

A(H1N1) flu epidemic.¹³⁴ According to Brazil's Ministry of Health, tough negotiations with pharmaceutical companies have saved the country over \$1.1 billion.¹³⁵

According to the U.S. Trade Representative, Brazil has improved its record on protecting intellectual property rights in recent years. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant intellectual property rights violations to the Watch List in 2007. Brazil has remained on the Watch List every year since 2007, however, as significant levels of piracy and counterfeiting persist and stronger enforcement is still needed. The United States and Brazil intend to continue working together on intellectual property rights issues under the Agreement on Trade and Economic Cooperation signed in March 2011.¹³⁶

Human Rights

According to the U.S. State Department's *Country Report on Human Rights* the following human rights problems were reported in Brazil in 2010: "unlawful killings; excessive force, beatings, abuse, and torture of detainees and inmates by police and prison security forces; inability to protect witnesses involved in criminal cases; harsh prison conditions; prolonged pretrial detention and inordinate delays of trials; reluctance to prosecute as well as inefficiency in prosecuting government officials for corruption; violence and discrimination against women; violence against children, including sexual abuse; trafficking in persons; discrimination against indigenous persons and minorities; failure to enforce labor laws; forced labor; and child labor in the informal sector." The report asserts that human rights violators often enjoyed impunity.¹³⁷

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 Rio de Janeiro. In one such attack in May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (*Primeiro Comando da Capital*, PCC), paralyzed the city of São Paulo for several days.¹³⁸ Officially, the violent gang attacks, which were followed

¹³⁴ "Update: Argentina, Brazil Question Swine Flu Vaccine Patents," *CNN Money*, July 24, 2009.

¹³⁵ "Haggling Saves Brazil \$1 Billion on AIDS Drugs," *Reuters*, November 13, 2007.

¹³⁶ U.S. Trade Representative, *Special 301 Report*, April, 2011.

¹³⁷ U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, *2010 Country Reports on Human Rights Practices*, April 8, 2011.

¹³⁸ 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 (continued...)

by police reprisals, resulted in at least 186 deaths.¹³⁹ More recently, in October 2009, gunmen of the Red Command (*Comando Vermelho*, CV) launched a raid on the Morro dos Macacos favela to wrest control of the drug trade from the rival Friends of Friends (*Amigos dos Amigos*, ADA) gang. Over the course of several days, 31 people were killed, including three police sharpshooters whose helicopter was shot down as they tried to control the situation.¹⁴⁰

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.”¹⁴¹ 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.¹⁴² 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.¹⁴³

Although many analysts assert that Brazilian politicians at all levels of government have failed to devote the resources and political will necessary to confront the country’s serious public security problems, there have been a number of efforts in recent years to improve the situation. During the Lula Administration, federal government expenditures on public security more than tripled.¹⁴⁴ State level efforts have also increased. One particularly noteworthy example is the State of Rio de Janeiro’s “Favela Pacification Program” that was established in late 2008. Under the initiative, elite police units enter favelas and clear them of drug gangs, allowing newly recruited Police

(...continued)

Hanson, “Brazil’s Powerful Prison Gang,” *Council on Foreign Relations*, September 26, 2006.

¹³⁹ “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.

¹⁴⁰ “Brazil: Rio Police Intervention in Gang War Leaves High Toll,” *Latin American Security & Strategic Review*, October 2009.

¹⁴¹ “Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil,” *States News Service*, November 15, 2007.

¹⁴² Human Rights Watch, *Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo*, December 2009.

¹⁴³ “Human Rights: Police Violence Under Renewed Scrutiny,” *Latin American Regional Report: Brazil & Southern Cone*, January 2010.

¹⁴⁴ “Recent Public Security Policies in Brazil,” Document provided in a meeting with officials from Brazil’s Ministry of External Relations, December 9, 2010.

Pacification Units (*Unidades de Polícia Pacificadora*, UPPs) to set up a permanent security presence and other governmental institutions to establish basic social services.¹⁴⁵

This is a significant change from previous law enforcement efforts, which generally centered around quick raids followed by long periods of government neglect. UPPs are now present in 17 favelas and the Rio de Janeiro government intends to extend their presence to 100 favelas by 2014 when Brazil hosts the World Cup. The initiative has moved ahead so quickly that the Brazilian military has had to temporarily take on some law enforcement duties while additional civilian personnel are trained. Although some have expressed concerns about the military taking on civilian responsibilities, most observers have reacted positively to the increased security cooperation between state and federal governments.¹⁴⁶ Moreover, the new initiative appears to have been successful thus far; in 2010, Rio de Janeiro saw a 22% decline in burglaries, a 19% decline in vehicle theft, an 18% decline in homicides, an 18% decline in deaths resulting from confrontations with police, and an 11% decline in street robbery.¹⁴⁷ President Rousseff intends to incorporate the UPPs into her national public security policy.¹⁴⁸

Race and Discrimination¹⁴⁹

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

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

¹⁴⁵ Adam Isacson, "Rio de Janeiro's Pacification Program," *Washington Office on Latin America*, January 5, 2011; Stuart Grudgings, "Rio Slums Open for Business as Gangs Ousted," *Reuters*, December 22, 2010.

¹⁴⁶ *Ibid.*; "Brazil: Forty Rio Favelas Targeted for 'Pacification,'" *Latin American Security & Strategic Review*, January 2010; Fabiana Frayssinet, "Police Occupation Hurts Improved Relations with Favelas," *Inter Press Service*, December 1, 2010; Fabiana Frayssinet and Mario Osava, "Brasil: La Policía se Gana Corazones en Río de Janeiro," *Inter Press Service*, November 29, 2010; Julia Michaels, "Rio Real: Brazil Struggles with Next Phase of UPP Program," *InSight: Organized Crime in the Americas*, June 2, 2011.

¹⁴⁷ "Officials: Rio has Lowest Murder Rate in 20 Years," *Associated Press*, February 2, 2011.

¹⁴⁸ "Brazil: Rio on Alert After New Wave of Violence," *Latin American Weekly Report*, November 25, 2010.

¹⁴⁹ For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke and June S. Beittel.

descendants, have noted that some of the legislation was weakened before passing and many of the initiatives lack the funding, staff, and clout necessary to be effective.¹⁵⁰ 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.¹⁵¹ Of the 71% of public universities that have adopted some type of affirmative action program, 87% have programs that benefit students of all races coming from the public school system (a proxy for low income).

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative seeks to promote equality of opportunity for the members of all racial and ethnic communities of the United States and Brazil. Current areas of focus include health, environmental justice, labor and employment, culture and communication, equal access to quality education, and equal protection of the law and access to the legal system.¹⁵² Since the launch of the Joint Action Plan, over \$5.5 million in U.S. interagency funding has supported projects, conferences, exchanges, grants, technical assistance, and other activities.¹⁵³

Trafficking in Persons for Forced Labor¹⁵⁴

According to the U.S. State Department's *Trafficking in Persons Report*, Brazil does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. As a result, it is listed as a Tier 2 country.¹⁵⁵ Brazil is a source, transit, and destination country for people, especially women and children, trafficked for commercial sexual exploitation. Brazilian Federal Police estimate that upwards of 250,000 children are exploited in domestic prostitution. Brazil is also a source country for men and children trafficked internally for forced labor. More than 25,000 Brazilian men have reportedly been recruited to labor in slave-

¹⁵⁰ Dayanne Mikevis and Matthew Flynn, "Brazil's Civil Rights Activists Achieving Overdue Policy Reform," *Citizen Action in the Americas*, No. 17, April 2005; Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010; Arthur Brice, "Brazil Enacts Racial Discrimination Law, but Some Say it's Not Needed," *CNN*, July 21, 2010.

¹⁵¹ Livio Sansone, "Anti-Racism in Brazil," *North American Congress on Latin America (NACLA)*, September 1, 2004.

¹⁵² U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality," December 5, 2010.

¹⁵³ CRS communication with the U.S. Department of State, Bureau of Western Hemisphere Affairs, Race, Ethnicity, and Social Inclusion Unit, February 23, 2011.

¹⁵⁴ For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

¹⁵⁵ 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.

like conditions, typically on cattle ranches, logging and mining camps, sugar-cane plantations, and large farms producing corn, cotton, soy, and charcoal.

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 2,617 victims, and forcing those responsible to pay fines and restitution. The Brazilian government also continued prosecuting traffickers, providing assistance to victims, and publically identifying individuals and corporate entities determined to have been responsible for crimes under the slave labor law. Despite these actions, Brazil has made only limited progress in bringing traffickers to justice.¹⁵⁶

Amazon Conservation

The Amazon basin spans the borders of eight countries and is the most biodiverse tract of tropical rainforest in the world. It holds 20% of the Earth's fresh water and 10% of all known species. The Amazon also holds 10% of the world's carbon stores and absorbs nearly 2 billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.¹⁵⁷

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.¹⁵⁸ 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.¹⁵⁹ Between 1990 and 2000, Brazil lost approximately 70,000 square miles of forest; however, deforestation rates have generally declined since the peak year of 2004.¹⁶⁰

¹⁵⁶ U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2011*, June 27, 2011.

¹⁵⁷ "Brazil: Global Warming Risks Threaten Amazonia," *Oxford Analytica*, March 16, 2009; Conor Foley, "The End of the Amazon?," *Foreign Policy*, June 2009; Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008; "Amazon: World's Largest Tropical Rainforest and River Basin," *World Wildlife Fund*, 2009.

¹⁵⁸ Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

¹⁵⁹ 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.

¹⁶⁰ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report: Brazil & Southern Cone*, December 2008.

Domestic Efforts

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions, the Brazilian government has expanded protected areas and implemented new environmental policies.¹⁶¹ The Lula Administration created over 60 new natural reserves, bringing the total area of the Brazilian Amazon protected by law to nearly 110,000 square miles, the fourth-largest percentage of protected area in relation to territory in the world.¹⁶² Lula also signed a Public Forest Management Law to encourage sustainable development and placed a moratorium on soybean plantings and cattle ranching in the Amazon. The Brazilian government intends to reduce the rate of Amazon deforestation by half—based on the 1996-2005 average—to 2,300 square miles per year—by 2017 and reduce Amazon deforestation by 80% by 2020. Brazil plans to meet these goals by increasing federal patrols of forested areas, replanting over 21,000 square miles of forest, and financing sustainable development projects in areas where the local economy depends on logging.¹⁶³ Although deforestation slowed to its lowest annual level since Brazil's National Institute for Space Studies began monitoring it in 1988 between August 2009 and July 2010, it spiked by 27% between August 2010 and April 2011. Some analysts attribute the deforestation surge to rising demand for agricultural commodities.¹⁶⁴

Although some conservation groups praised the Brazilian government's actions, a number of environmentalists have questioned the country's commitment to sustainable development.¹⁶⁵ Critics assert that the Brazilian government favors agricultural interests over conservation. In June 2009, Lula approved a law that granted nearly 260,000 square miles of the Amazon to illegal squatters, 72% of which was directed to large land holders.¹⁶⁶ Likewise, in May 2011, Brazil's Chamber of Deputies passed a revision to the forest code that would provide partial amnesties for past deforestation, reduce the amount of forest that farmers must preserve, and relax conservation requirements for environmentally sensitive areas like hilltops and river banks.¹⁶⁷ While supporters of these measures argue that they are necessary to bring farmers into compliance with the law and make the laws more enforceable, opponents assert that farmers will engage in additional deforestation in anticipation of future amnesties.¹⁶⁸

¹⁶¹ "Brazil: The Land Cries for Amazonia," *Latin America Data Base, NotiSur*, February 13, 2009.

¹⁶² "Brazil: Government Policy for Amazon Still Ambiguous," *Latin News Weekly Report*, May 22, 2008.

¹⁶³ "Government Sets Targets to Cut Deforestation," *Latin American Regional Report: Brazil & Southern Cone*, December 2008; "Brazil: Climate Credentials to the Fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

¹⁶⁴ "Brazil: Deforestation Reaches 22-year Low," *Oxford Analytica*, December 2, 2010; "Demand Drives Deforestation Surge in Brazilian Amazon," *Oxford Analytica*, May 19, 2011.

¹⁶⁵ See, for example, Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; and Ana Paula Paiva, "Brazil Environment Minister Says Lacks Support," *Reuters*, May 28, 2009.

¹⁶⁶ Jose Pedro Martins, "Brazil: Environmentalists and Church Protest Legalization of Fraudulently Obtained Lands in the Amazon," *Latin America Data Base, NotiSur*, June 25, 2009.

¹⁶⁷ Raymond Colitt, "Farmers Gain, Forests at Risk from Brazil Land Bill," *Reuters*, May 24, 2011.

¹⁶⁸ Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," *Reuters*, June 1, 2011; "Brasil: Ex Ministros de Medio Ambiente Claman Contra Reforma de Ley Forestal," *Agence France Presse*, May 23, 2011.

International Initiatives

In August 2008, Brazil launched the “Amazon Fund” to attract donations from countries, companies, and non-governmental organizations to assist in Brazil’s Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021 to support forest conservation, scientific research, and sustainable development. Norway has pledged \$1 billion to the fund through 2015 and Germany has pledged \$26.8 million. The first projects funded by the Amazon Fund were announced in December 2009. They include projects to regenerate degraded land, monitor land registration titles, and pay rubber tappers and other forest dwellers to protect the forest.¹⁶⁹

U.S. environment programs in Brazil support tropical forest conservation through the promotion of proper land-use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, the U.S. Agency for International Development (USAID) initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon’s biodiversity. USAID provided \$9.5 million for environmental programs in Brazil in FY2008, \$10 million in FY2009, and \$14 million in FY2010. The Obama Administration requested \$7 million for environmental programs in Brazil in FY2011¹⁷⁰ and \$5 million for FY2012.¹⁷¹ In August 2010, the United States and Brazil signed a debt-for-nature agreement under the Tropical Forest Conservation Act of 2008 (P.L. 105-214), which will reduce Brazil’s debt payments by \$21 million over the next five years. In exchange, the Brazilian government will commit those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.¹⁷²

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¹⁶⁹ “Brazil Unveils First Foreign-Funded Amazon Projects,” *Reuters*, December 4, 2009.

¹⁷⁰ Although the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) was signed into law on April 15, 2011, country-specific funding levels are not yet available.

¹⁷¹ U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2011*, February 1, 2010; and *Congressional Budget Justification for Foreign Operations, Fiscal Year 2012*, April 8, 2011.

¹⁷² U.S. Department of State, Office of the Spokesman, “Debt-for-Nature Agreement to Conserve Brazil’s Tropical Forests,” August 12, 2010. For more information on the Tropical Forest Conservation Act, see CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheikh.

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