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# **Brazil: Political and Economic Situation and U.S. Relations**

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March 27, 2014

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

RL33456

## Summary

The United States has traditionally enjoyed cooperative relations with Brazil, which is the seventh-largest economy in the world and is recognized by the Obama Administration's National Security Strategy as an emerging center of influence. Administration officials have often highlighted Brazil's status as a multicultural democracy, referring to the country as a natural partner that shares values and goals with the United States. Bilateral ties have been strained from time to time, however, as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements. U.S.-Brazilian relations have been particularly strained over the past year as a result of alleged National Security Agency (NSA) activities inside Brazil. Nevertheless, the countries continue to engage on issues such as trade, energy, security, racial equality, and the environment.

### Political and Economic Situation

Dilma Rousseff of the center-left Workers' Party was inaugurated to a four-year presidential term on January 1, 2011, inheriting a country that had benefited from 16 years of stable governance under Presidents Fernando Henrique Cardoso (1995-2002) and Luis Inácio Lula da Silva (2003-2010). She has spent much of her time in office focusing on domestic economic challenges. Brazil experienced a rapid economic expansion from 2004 to 2010, but growth began to slow in 2011. While Rousseff's efforts to stimulate domestic consumption and protect domestic industry have helped keep unemployment near record lows, economic growth has yet to accelerate, averaging 2% annually during the first three years of her term.

Rousseff has also had to contend with several political challenges. Mass demonstrations took place across Brazil in June 2013, with protesters calling for better quality public services, among other demands. Rousseff implemented some policy reforms in response to the demonstrations, but smaller-scale protests have continued to occur and could grow in size in the lead-up to Brazil hosting the World Cup in June and July 2014. The Brazilian Congress has provided additional challenges for Rousseff, with some sectors of her multiparty coalition opposing her legislative initiatives. Although Rousseff's approval rating declined significantly during 2013, it has partially recovered and stood at 41% in February 2014. National and state elections are scheduled for October 2014, and early polling suggests Rousseff is favored to win reelection.

### Congressional Action

Brazil has remained a subject of interest in the 113<sup>th</sup> Congress. In June 2013, the House Committee on Ways and Means, Subcommittee on Trade, held a hearing examining the opportunities and challenges of the U.S.-Brazil trade and investment relationship. As part of the farm bill reauthorization (P.L. 113-79), Congress approved modifications to the U.S. cotton program that could help resolve a long-running trade dispute with Brazil. Congress also continued to support conservation of the Amazon Rainforest, appropriating \$10.5 million for environmental programs in the Brazilian Amazon in the Consolidated Appropriations Act, 2014 (P.L. 113-76). Other measures that have been introduced in the 113<sup>th</sup> Congress include two bills designed to pressure Brazil to amend its constitution and allow the extradition of Brazilian nationals; H.R. 571 would suspend foreign assistance to Brazil, and H.R. 572 would suspend the issuance of visas to Brazilian nationals until Brazil changes its extradition policy.

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## Political and Economic Situation

President Dilma Rousseff of the center-left Workers Party took office on January 1, 2011, and is now in the final year of her term. She inherited a country that had benefited from 16 years of capable governance under Presidents Fernando Henrique Cardoso (1995-2002) and Luis Inácio Lula da Silva (2003-2010), during whose terms Brazil made significant advances in economic stabilization and social inclusion. Rousseff has faced a series of challenges in office, however, as the Brazilian economy has slowed and citizens have taken to the streets to express a variety of frustrations. While Rousseff has won support from the Brazilian Congress for portions of her policy agenda, she occasionally has been stymied by sectors of her own multiparty coalition. Brazil continues to face considerable economic challenges as the country prepares to host the World Cup in June and July 2014 and hold national and state elections in October 2014. Nevertheless, early polling suggests that Rousseff is favored to win a second term as president.

## Background

Brazil occupies almost half of the continent of South America and is the fifth most populous country in the world with 201 million citizens.<sup>1</sup> The country declared independence from Portugal in 1822, initially establishing a constitutional monarchy and retaining a slave-based, plantation economy. Brazil abolished slavery in 1888 and became a republic in 1889, but economic and political power remained concentrated in the hands of large rural landowners and the vast majority of Brazilians remained outside the political system. The authoritarian government of Getúlio Vargas (1930-1945) began the incorporation of the working classes but exerted strict control over labor as part of his broader push to centralize power. Vargas also increased the state's role in the economy and pursued import-substitution industrialization. Brazil enjoyed multiparty democracy between 1945 and 1964, but experienced polarization and instability as economic growth slowed, inflation increased, and populism gained strength.

The Brazilian military seized power in a 1964 coup, ushering in two decades of authoritarian rule (1964-1985). Although repressive—especially between 1969 and 1974, the Brazilian military was not as brutal as those in some other South American countries. It nominally allowed the judiciary and Congress to function during its tenure, but stifled representative democracy and civic action, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. Brazil continued to pursue state-led development during most of the military era, and industrialization helped foster the transformation of Brazil into a predominantly urban society.

Brazil restored civilian rule in 1985, and a national constituent assembly, elected in 1986, promulgated a new constitution in 1988. The constitution, as amended, established a liberal democracy with a strong president, a bicameral Congress consisting of the 513-member Chamber of Deputies and the 81-member Senate, and an independent judiciary. Power is somewhat decentralized under the country's federal structure, which includes 26 states, a federal district, and some 5,570 municipalities. The reestablishment of democracy did not ensure stability, however,

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<sup>1</sup> United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 2013*, December 2013, p.33, <http://www.eclac.cl/publicaciones/xml/5/51945/AnuarioEstadistico2013.pdf>.

as Brazil experienced economic recession and political uncertainty during the first decade after the political transition. Numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms; one died before taking office and the other was impeached on corruption charges.<sup>2</sup>

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

<sup>2</sup> *Brazil: A Country Study*, ed. Rex A. Hudson, 5<sup>th</sup> ed. (Washington, DC: Library of Congress, 1998).

## Cardoso Administration (1995-2002)

Brazil's economic and political situation began to stabilize under President Fernando Henrique Cardoso, who was elected to serve two terms between 1995 and 2002. A prominent sociologist of the centrist<sup>3</sup> Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), Cardoso's initial election in 1994 was largely the result of the success of the anti-inflation "Real Plan" that he implemented as finance minister under President Itamar Franco (1992-1994). The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with annual inflation falling from 2,730% in 1993 to about 18% in 1995.<sup>4</sup> Cardoso continued the economic reform push after taking office, privatizing some state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment.

Although these policies contributed to stronger growth rates for a few years, macroeconomic stability remained elusive. Foreign investors began flooding Brazil with large capital inflows that contributed to currency appreciation and the eventual overvaluation of the *real*. Following the 1997 East Asian and 1998 Russian financial crises, concerns about Brazil's overvalued exchange rate and substantial fiscal deficits sparked a massive capital flight. Brazil was forced to adopt a floating exchange rate and the *real* lost 40% of its value.<sup>5</sup>

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

## Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was elected president of Brazil in 2002, his fourth attempt at the presidency as the candidate of the center-left<sup>6</sup> Workers Party (*Partido dos Trabalhadores*, PT) that he helped found as a metalworker and union leader. During his first term, Lula maintained the market-oriented economic policies associated with his predecessor. He tightly controlled expenditures, raised the primary budget surplus, and granted additional autonomy to the Central Bank. At the same time, he placed greater emphasis on reducing poverty, reorganizing and expanding some of the social programs that had been initiated under Cardoso. The most high profile program, *Bolsa Família* ("Family Grant"), provides monthly cash transfers

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<sup>3</sup> The PSDB was founded as a center-left party by dissidents from the social democratic wing of the Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB). It has moved to the right, however, 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.

<sup>4</sup> CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

<sup>5</sup> Ibid; Riordan Roett, "How Reform has Powered Brazil's Rise," *Current History*, February 2010.

<sup>6</sup> Although the PT was founded as a leftist party, it moved toward the ideological center upon taking office in 2002. Power and Zucco, 2009, op.cit.

to poor families that ensure their children attend school and receive proper medical care. Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in a vote-buying scheme. Although the scandal ultimately led to the convictions of 25 people—including Lula's former chief of staff—in 2012,<sup>7</sup> Lula was reelected in 2006.

After primarily focusing on maintaining economic stability during his first term, Lula established a larger role for the Brazilian state in economic development during his second term. He expanded *Bolsa Familia* and launched new social welfare programs such as *Minha Casa, Minha Vida* (“My House, My Life”)—an attempt to increase formal housing for low-income Brazilians. He also continued to raise the minimum wage, which, adjusted for inflation, increased nearly 64% during his eight years in office.<sup>8</sup> In response to the global financial crisis, the Lula Administration implemented a series of stimulus measures designed to offset declines in global demand with increased domestic consumption. Analysts have credited the administration's timely policy response for mitigating the effects of the crisis and facilitating recovery;<sup>9</sup> the Brazilian economy contracted by 0.3% in 2009 before rebounding with 7.5% growth in 2010.<sup>10</sup> Moreover, Lula won legislative approval for a new regulatory framework that is designed to increase the state's role in the exploitation of Brazil's considerable offshore oil reserves and use the resources to fuel long-term economic and social development.

Although some observers criticized Lula for not doing more to advance certain policy reforms,<sup>11</sup> most give him credit for improving social inclusion in Brazil. Between 2001 and 2011, the percentage of the population living in poverty fell from 37.5% to 20.9%, and the percentage living in extreme poverty fell from 13.2% to 6.1%.<sup>12</sup> Income inequality was also reduced, with the Gini coefficient<sup>13</sup> falling from 0.64 to 0.56 during the same time period.<sup>14</sup> While these advances were partially the result of stronger economic growth driven by a boom in international demand for Brazilian commodities, government policy also played a role. According to a 2012 study, about 28% of the decline in income inequality in Brazil between 2001 and 2009 was attributable to increases in the minimum wage and another 12.7% of the decline was attributable to the *Bolsa Familia* program.<sup>15</sup>

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<sup>7</sup> “Brazil Politics: Supreme Court Gives Tough Sentences in ‘Mensalão’ Trial,” *Economist Intelligence Unit*, October 26, 2012.

<sup>8</sup> Cristiano Romero, “O Legado de Lula na Economia,” *Valor Online* (Brazil), December 29, 2010.

<sup>9</sup> See, for example, International Monetary Fund (IMF), “IMF Executive Board Concludes 2010 Article IV Consultation with Brazil,” August 5, 2010.

<sup>10</sup> IMF, *World Economic Outlook Database, October 2013*, accessed February 2014.

<sup>11</sup> See, for example, “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.

<sup>12</sup> ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2012*, December 2012, p.65, [http://www.eclac.cl/publicaciones/xml/4/48864/AnuarioEstadistico2012\\_ing.pdf](http://www.eclac.cl/publicaciones/xml/4/48864/AnuarioEstadistico2012_ing.pdf).

<sup>13</sup> The Gini coefficient is a value between zero and one, where zero represents complete equality and one represents complete inequality.

<sup>14</sup> ECLAC, December 2012, op.cit., p.70.

<sup>15</sup> Pedro H. G. Ferreira de Souza, *Poverty, Inequality and Social Policies in Brazil, 1995-2009*, U.N. Development Programme, International Policy Centre for Inclusive Growth, Working Paper Number 87, Brasilia, February 2012, p.19, <http://www.ipc-undp.org/pub/IPCWorkingPaper87.pdf>.

### Brazil at a Glance

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

**Population:** 201.5 million (2014 est.)

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

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

**Official Language:** Portuguese

**Gross Domestic Product (GDP):** \$2.2 trillion (2013 est.)

**GDP per Capita:** \$10,958 (2013 est.)

**Top Exports:** iron ore, soy beans, oil, meat, motor vehicles and parts, machinery, and sugar (2013)

**Life Expectancy at Birth:** 73.2 years (2010-2015 est.)

**Infant Mortality Rate:** 19 per 1,000 live births (2010-2015 est.)

**Adult Literacy Rate:** 90.4% (2011)

**Poverty Rate:** 18.6% (2012)

**Indigence Rate:** 5.4% (2012)

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

## Rousseff Administration (2011-Present)

Dilma Rousseff of the center-left PT was inaugurated to a four-year term in January 2011, becoming Brazil's first woman president. She had never been elected to public office prior to winning the presidency,<sup>16</sup> but was chosen by Lula to run as his successor. Rousseff served as minister of mines and energy from 2003 to 2005 and Lula's chief of staff from 2005 to 2010, during which time she was in charge of strategic projects such as the government's housing program, investments in infrastructure, and a new regulatory framework for developing Brazil's offshore oil reserves. Rousseff is an economist by training. She originally became involved in politics by joining underground leftist groups that fought against the military regime; Rousseff was arrested, tortured, and imprisoned for nearly three years during the authoritarian period.<sup>17</sup>

Although her multiparty coalition nominally holds significant majorities in both houses of the Brazilian Congress, Rousseff has struggled throughout her term to hold the ideologically diverse coalition together. Given the fragmented nature of Brazil's political system, presidents have traditionally distributed control of ministries and state enterprises to coalition partners in order to construct governing majorities. Rousseff's distribution of appointments, which heavily favors the PT over the other seven parties with representation in the 39-member cabinet, has upset some sectors of the coalition. Her dismissal of six cabinet ministers accused of corruption during her

<sup>16</sup> Rousseff won 56% of the vote to defeat José Serra of the PSDB in a second round runoff election on October 31, 2010. The second round was necessary since Rousseff had fallen just short of an absolute majority—with 47% of the vote—in the first round election held on October 3, 2010. In the first round, she was followed by Serra at 33%, and Marina Silva, a former Lula Administration environment minister that ran for president as the candidate of the Green Party (*Partido Verde*, PV), at 19%.

<sup>17</sup> Presidência da República Federativa do Brasil, "Presidenta: Biografia," July 4, 2011.



first year in office and periodic efforts to more tightly control government expenditures have exacerbated these intra-coalition divisions. In Brazil's 513-seat Chamber of Deputies, for example, the number of deputies supporting the Rousseff Administration on at least 90% of votes fell from 306 (60%) in 2011 to 123 (24%) in 2013.<sup>18</sup> While Rousseff has been able to win legislative support for portions of her policy agenda, she has lost key congressional votes on issues such as the distribution of oil royalties and reforms to Brazil's forest conservation law.<sup>19</sup>

## Economic Challenges

Rousseff has spent the majority of her time in office focused on domestic economic challenges. With a gross domestic product (GDP) of \$2.2 trillion,<sup>20</sup> Brazil is the largest economy in Latin America and the seventh-largest economy in the world. The country experienced rapid economic growth from 2004 to 2010, driven by a boom in international demand—particularly from China—for Brazilian commodities such as meat, sugar, soybeans, iron ore, and crude oil. The initial expansion was reinforced by domestic consumption from Brazil's fast-growing middle class,<sup>21</sup> which now accounts for a majority of the population.<sup>22</sup> As international commodity prices began to fall, however, economic growth slowed.

The Rousseff Administration has sought to offset the weaker international economic situation by boosting domestic consumption and protecting domestic industry. The Administration has pursued an expansionary fiscal policy, implementing a series of short-term stimulus packages. It has also adopted a new industrial policy, known as *Brasil Maior* ("Bigger Brazil"), which has included targeted tax cuts and financing through the Brazilian Development Bank (BNDES) for domestic manufacturing, stronger preferences for locally produced goods in government procurement, and restrictions on imports.<sup>23</sup>

While these measures have helped keep unemployment near historic lows (5.1% in February 2014),<sup>24</sup> economic growth has yet to recover. The Brazilian economy expanded by an average of about 2% annually from 2011 to 2013,<sup>25</sup> and is forecast to grow by 2.3% in 2014.<sup>26</sup> As a result of lower tax receipts, the Brazilian government has been forced to rely on accounting maneuvers and extraordinary revenue to meet its primary budget surplus target.<sup>27</sup> Moreover, these economic

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<sup>18</sup> José Roberto de Toledo, Isadora Peron, and Rodrigo Burgarelli, "PSD e PSB Puxam Derrotas do Governo na Câmara; Núcleo Fiel a Dilma Fica 60% Menor," *O Estado de São Paulo*, January 20, 2014.

<sup>19</sup> Joe Leahy, "Brazil Grapples with Dysfunctional Congress; Controversy over Pastor Highlights Complexity of Dealing with a Congress Hostage to Diverse Interest Groups," *Financial Times*, April 10, 2013.

<sup>20</sup> IMF, *World Economic Outlook Database, October 2013*, accessed February 2014.

<sup>21</sup> The Brazilian government breaks the population into five income classes: A, B, C, D, and E. Those in the "C" class, who earn approximately \$760-\$3,280 (R\$1,734-7,475) per month, are generally referred to as the "new middle class."

<sup>22</sup> 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, p.35.

<sup>23</sup> "Brazil: Propping Up Industry," *Economist Intelligence Unit*, August 15, 2011; Howard Schneider, "Brazil's Inward Turn Bothers U.S.," *Washington Post*, December 4, 2012.

<sup>24</sup> Instituto Brasileiro de Geografia e Estatística (IBGE), "Unemployment Rate was 5.1% in February," March 27, 2014.

<sup>25</sup> IMF, *World Economic Outlook Database, October 2013*, accessed February 2014.

<sup>26</sup> IMF, *World Economic Outlook Update, Is the Tide Rising?*, January 21, 2014.

<sup>27</sup> Paulo Trevisani, "Brazil Changes Budget; Freezes Some Spending to Regain Markets' Confidence," *Wall Street Journal*, February 20, 2014.

policies have helped push inflation to the upper edge of the government's targeted boundary (4.5% with a 2-point tolerance band), weakening citizens' purchasing power and eroding national competitiveness. In order to keep inflation under control, the Brazilian Central Bank, which previously had reduced interest rates to record lows, was forced to reverse course and adopt a tighter monetary policy.<sup>28</sup>

Many analysts maintain that Brazil's slower economic growth is the result of structural constraints such as "infrastructure deficiencies, high labor costs and low skill levels, a high tax burden and an onerous tax system, excessive administrative burdens, shallow credit markets, and barriers to international trade."<sup>29</sup> They argue that the Brazilian government should address these constraints and thereby improve productivity and boost investment, rather than continuing to try to stimulate consumption.<sup>30</sup> It appears as though the Rousseff Administration recognizes these constraints on growth. Among other measures, it has cut taxes and encouraged private investment in the country's overburdened infrastructure by tendering concessions to build and operate roads, railways, ports, and airports. Significant challenges remain, however, as Brazil is ranked 116<sup>th</sup> out of 189 countries in the World Bank's 2014 "Ease of Doing Business" index,<sup>31</sup> and gross domestic investment stands at 18.4% of GDP<sup>32</sup>—well below the 22%-23% of GDP that economists estimate is necessary to sustain higher economic growth.<sup>33</sup>

## Mass Demonstrations

Mass demonstrations took place across Brazil in June 2013, and smaller protests have continued to take place periodically since then. The protests began on June 6, 2013, when about 2,000 people took to the streets of São Paulo to oppose an increase in bus fares. The crowds started to grow as Brazilians shocked by the heavy-handed police response joined in subsequent demonstrations. The situation then rapidly evolved as Brazilians began to air a broader array of grievances and news of the demonstrations was relayed through social media. At the peak of the demonstrations on June 20, 2013, an estimated 1.2 million people protested in 80 cities across Brazil.<sup>34</sup>

While the protesters voiced a wide range of complaints, the underlying cause of the demonstrations appears to be the government's failure to meet citizens' rising expectations. Some 40 million Brazilians have joined the middle class since 2003,<sup>35</sup> and many that have left poverty behind expect further improvements in their living standards. Public education, health, and transportation services are generally perceived to be low quality, however, and the slowing economy and rising cost of living have reinforced the precarious position of the new middle class. Moreover, inequality remains high by international standards despite a significant reduction over

<sup>28</sup> Walter Brandimarte, "Insight – Brazil's Tombini: An Inflation Hawk, Believe It or Not," *Reuters*, August 23, 2013.

<sup>29</sup> Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: Brazil*, October 2013.

<sup>30</sup> Ibid; "The Days of Easy Growth are Over for Now," *Latin America Monitor: Brazil*, July 2013; IMF, *Brazil: Staff Report for the 2013 Article IV Consultation*, IMF Country Report No. 13/312, Washington, DC, October 2013, <http://www.imf.org/external/pubs/ft/scr/2013/cr13312.pdf>.

<sup>31</sup> World Bank, "Ease of Doing Business in Brazil," <http://www.doingbusiness.org/data/exploreconomies/brazil>.

<sup>32</sup> IMF, October 2013, op.cit., p.45.

<sup>33</sup> Joe Leahy, "Investors Worry the Dilma Model is Unravelling in Brazil," *Financial Times*, May 20, 2013.

<sup>34</sup> "Brazil's Stormy June: Not Turkey or Egypt," *Latin American Security & Strategic Review*, June 2013.

<sup>35</sup> Neri, 2011, op.cit., p.35.

the past decade; the top 10% of Brazilians receive over 46% of all income—more than the bottom 80% of Brazilians combined.<sup>36</sup>

Although there continues to be broad support for Brazil's development model, which includes relatively high taxes (36.3% of GDP in 2012)<sup>37</sup> and an active role for the government in the economy,<sup>38</sup> many Brazilians believe public funds are being squandered through corruption and unnecessary expenditures. Some 200 federal legislators are reportedly facing criminal charges,<sup>39</sup> and, until recently, several legislators that had been convicted in high-profile corruption cases were allowed to keep their seats in Congress. The Confederations Cup soccer tournament that Brazil hosted in June 2013 as a prelude to the 2014 World Cup served as a useful backdrop for protesters seeking to highlight the divergence between the priorities of average citizens, who demand better public services, and Brazilian politicians, who are investing about \$11.2 billion (R\$25.6 billion)<sup>40</sup> to upgrade soccer stadiums and related infrastructure. Over the course of June 2013, the percentage of Brazilians rating the Rousseff Administration as "good" or "excellent" fell 27 points to 30%.<sup>41</sup> Politicians from other parties and at other levels of government saw similar declines, reflecting citizens' general discontent with the Brazilian political class.

The demonstrations appear to have caught Brazilian politicians off-guard.<sup>42</sup> Prior to the protests, President Rousseff enjoyed high approval ratings, and many in the ruling coalition assumed that Brazilians would continue to reward them politically for Brazil's decade-long rise in living standards. According to some analysts, however, it is precisely because Brazilians enjoy more economic security that they have been able to focus on broader quality of life and good governance issues.<sup>43</sup> Moreover, while some labor unions and social movements have close ties to, and regularly consult with, the PT and other Brazilian political parties, the protests reportedly have been fueled by youth without strong connections to the political system.<sup>44</sup>

In an attempt to regain the initiative, Rousseff called on Brazilian policy makers to adopt a variety of policy changes—some of which she had previously proposed—to address the protesters' demands. Her five so-called "pacts" related to fiscal responsibility, political reform, healthcare, public transportation, and education.<sup>45</sup> While some of Rousseff's initiatives have moved forward, others have not. Her political reform proposal found little support in the Brazilian Congress, but small-scale electoral changes and several anti-corruption and transparency measures have been enacted. The Brazilian Congress also adopted a measure to dedicate 75% of

<sup>36</sup> ECLAC, December 2013, op.cit., p.77.

<sup>37</sup> OECD, ECLAC, and Inter-American Center of Tax Administrations, *Revenue Statistics in Latin America, 1990-2012*, January 2014.

<sup>38</sup> For example, a November 2013 poll found that 67% of Brazilians think the government, rather than the private sector, should be most responsible for investing to produce economic growth. Ricardo Mendonça, "Brasileiros se Dividem sobre Impostos e Papel do Governo," *Folha de São Paulo*, December 8, 2013.

<sup>39</sup> Simon Romero, "Public Rage Catching Up With Brazil's Congress," *New York Times*, June 27, 2013.

<sup>40</sup> República Federativa do Brasil, Ministério do Esporte, "Matriz de Responsabilidades Consolidada," September 2013.

<sup>41</sup> "Avaliação da Presidente Dilma Rousseff," *Datafolha*, June 28, 2013.

<sup>42</sup> Francisco Peregil, "Las Protestas Dejan a Brasil Perplejo," *El País* (Spain), June 23, 2013; "A Direção do PT está em Pânico, Diz Historiador," *Folha de São Paulo*, June 23, 2013.

<sup>43</sup> Bob Moser, "Record Low Unemployment Fueling Protestor Confidence in Brazil," *MercoPress*, July 2, 2013.

<sup>44</sup> Fernando Rodrigues, "Movimento está Divorciado dos Políticos Tradicionais," *Folha de São Paulo*, June 18, 2013.

<sup>45</sup> Presidência da República Federativa do Brasil, "Discurso da Presidenta da República, Dilma Rousseff, durante Reunião com Governadores e Prefeitos de Capitais," June 24, 2013.

the funds generated by oil royalties to education and 25% to health care. For its part, the Rousseff Administration has increased expenditures for urban transportation projects, and created a program known as *Mais Médicos* (“More Doctors”) that has brought nearly 14,000 (mainly Cuban) doctors to Brazil to work in underserved communities.<sup>46</sup>

Although some Brazilians have continued to protest, the demonstrations have been less frequent and smaller in scale since June 2013. The protests also appear to have lost some public support as a result of so-called “Black Bloc” demonstrators that have engaged in confrontations with police and vandalism. Between June 2013 and February 2014, the percentage of Brazilians supporting the protests fell from 81% to 52% and the percentage opposed to the protests increased from 15% to 42%.<sup>47</sup> Nevertheless, large-scale demonstrations could reemerge in the lead-up to the World Cup, which is scheduled to be played in Brazil between June 12 and July 13, 2014.

## 2014 Elections

Brazil is scheduled to hold presidential, legislative, and state office elections on October 5, 2014. President Rousseff is running for reelection as the PT’s candidate and is currently attempting to solidify alliances with the rest of the parties in her ruling coalition. The principal opposition candidates appear to be Aécio Neves, a Senator from the state of Minas Gerais and the candidate of the PSDB, and Eduardo Campos, the governor of the state of Pernambuco and the candidate of the center-left Brazilian Socialist Party (*Partido Socialista Brasileiro*, PSB). Campos has forged an alliance with Marina Silva, who served as an environment minister in the Lula Administration and won 19% of the presidential vote in 2009. While the PSDB has led the political opposition since the PT first took power in 2003, the PSB was a member of the ruling coalition until September 2013. Neves and Campos have adopted similar campaign rhetoric, promising to maintain the successful social policies of the PT while increasing government efficiency, strengthening the economy, reducing crime, and improving the quality of public services.<sup>48</sup>

Early polling suggests that Rousseff is favored to win reelection. A February 2014 poll found that when asked to choose between the top three contenders, 47% of Brazilians would vote for Rousseff, 17% would vote for Neves, and 12% would vote for Campos. Nevertheless, there are some indications that the race could tighten. Rousseff’s approval rating has only partially recovered since its precipitous drop in June 2013 and currently stands at 41%. Likewise, 67% of Brazilians say they would prefer that the next president take different actions than those of President Rousseff. Rousseff also currently benefits from higher name recognition, which will likely change over the course of the campaign. While Rousseff is known to all Brazilians, 24% have never heard of Neves and 45% have never heard of Campos.<sup>49</sup> If no candidate wins an absolute majority, a runoff election would be scheduled for October 26, 2014.

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<sup>46</sup> Paulo Victor Chagas, “Cinco Pactos Foram a Resposta do Governo Federal aos Protestos de Junho,” *Agência Brasil*, December 31, 2013; Johanna Nublat, “Com Nova Leva, Cubanos Serão 82% do Mais Médicos,” *Folha de São Paulo*, March 6, 2014.

<sup>47</sup> Fabiano Maisonnave, “Aprovação à Realização da Copa é a Menor em 5 Anos,” *Folha de São Paulo*, February 24, 2014.

<sup>48</sup> Gustavo Patu, “Críticas de Aécio e Campos ao PT são Quase Idênticas,” *Folha de São Paulo*, February 9, 2014.

<sup>49</sup> Datafolha, *Intenção de Voto para Presidente 2014*, February 20, 2014; Fernando Rodrigues, “Dilma Para de Subir, Mas Seria Reeleita No 1º Turno,” *Folha de São Paulo*, February 23, 2014.

## U.S.-Brazil Relations

The United States and Brazil have traditionally enjoyed cooperative relations. The Obama Administration's National Security Strategy recognizes Brazil as an emerging center of influence and asserts that the U.S. government welcomes Brazil's leadership to "pursue progress on bilateral, hemispheric, and global issues."<sup>50</sup> To this end, the countries have at least 20 active bilateral dialogues, which serve as vehicles for policy coordination on issues of mutual concern.<sup>51</sup> State Department officials maintain that the United States and Brazil are "natural partners" with "shared values and increasingly converging goals."<sup>52</sup> Through the Obama Administration's 100,000 Strong in the Americas initiative and Brazil's Science without Borders program, for example, both countries are seeking to create new academic and research partnerships and increase educational exchanges among U.S. and Brazilian students.

Nevertheless, bilateral ties have been strained from time to time as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements. Several long-running disputes relate to trade, where Brazil has pushed the United States to reduce protections for U.S. agriculture and the United States has pushed Brazil to reduce protections for Brazilian industry (see "Commercial Relations"). Other disagreements have arisen as Brazil has taken on a larger role in international affairs. In 2010 and 2011, for example, Brazil used its temporary seat on the U.N. Security Council to advocate engagement with internationally isolated regimes like Iran, Libya, and Syria. While the United States and Brazil generally agreed on desired outcomes in these countries, Brazil's long-standing commitment to the peaceful resolution of conflicts and its aversion to the use of military force (or economic sanctions, which it views as a prelude to the use of force) led it to approach the issues much differently than the United States.

Bilateral relations have been particularly strained over the past year as the press has reported on alleged National Security Agency (NSA) activities in Brazil. The reports, which indicated that the NSA had spied on President Rousseff and the state-owned oil company *Petróleo Brasileiro S.A.* (Petrobras) in addition to engaging in broader electronic surveillance, led Brazil to indefinitely postpone a state visit to Washington that Rousseff was scheduled to make in October 2013. They also appear to have influenced Brazil's decision to award a \$4.5 billion fighter jet procurement deal to Sweden's Saab AB over Boeing (see "Defense"). At the September 2013 U.N. General Assembly, Rousseff denounced alleged NSA activities as a breach of international law and a threat to democratic governance, stating, "I fought against authoritarianism and censorship, and I cannot but defend, in an uncompromising fashion, the right to privacy of individuals and the sovereignty of my country. In the absence of the right to privacy, there can be no true freedom of expression and opinion, and therefore no effective democracy." She also asserted that "friendly governments and societies that seek to build a true strategic partnership ... cannot allow recurring illegal actions to take place as if they were normal. They are unacceptable."<sup>53</sup>

<sup>50</sup> White House, *National Security Strategy*, May 2010, p. 44.

<sup>51</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S. Relations with Brazil," Fact Sheet, October 3, 2013.

<sup>52</sup> William J. Burns, Deputy Secretary of State, "Building a Deeper Partnership with Brazil," Remarks in Rio de Janeiro, Brazil, March 1, 2012.

<sup>53</sup> President Dilma Rousseff, *Statement by H.E. Dilma Rousseff, President of the Federative Republic of Brazil, at the Opening of the General Debate of the 68<sup>th</sup> Session of the United Nations General Assembly*, September 24, 2013.

## U.S. Foreign Assistance and Trilateral Development Initiatives

As a middle-income country, Brazil does not receive large amounts of U.S. assistance. The United States provided Brazil with \$25.5 million in FY2011, \$19 million in FY2012, and \$15.2 million in FY2013. The Obama Administration estimates that \$13.9 million will be provided to Brazil in FY2014 and has requested \$3.4 million for Brazil in FY2015 (see **Table 1**). The majority of the assistance provided in recent years has supported conservation programs in the Brazilian Amazon (see “Amazon Conservation”). The FY2015 request is significantly lower than the FY2014 estimate as a result of the Administration not requesting additional funds for these environmental programs in Brazil. The United States has also provided Brazil with security assistance, much of which has focused on counternarcotics and military capacity building efforts (see “Security Cooperation”).

**Table 1. U.S. Assistance to Brazil: FY2010-FY2015**

In thousands of U.S. dollars

Account	FY2010	FY2011	FY2012	FY2013	FY2014 (estimate)	FY2015 (request)
<b>State Department and USAID, Subtotal</b>	<b>25,099</b>	<b>23,321</b>	<b>18,038</b>	<b>15,185</b>	<b>13,865</b>	<b>3,365</b>
DA	16,789	15,000	12,800	11,462	12,500	2,000
GHP-State	1,300	1,300	1,300	881	500	500
GHP-USAID	5,000	4,990	0	0	0	0
INCLE	1,000	1,000	3,000	2,000	0	0
NADR	400	400	300	270	240	240
IMET	610	631	638	572	625	625
<b>DOD, Subtotal<sup>a</sup></b>	<b>1,928</b>	<b>2,167</b>	<b>919</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
1004	583	1,012	557	NA	NA	NA
2249c	0	127	247	NA	NA	NA
2561	1,345	1,028	115	NA	NA	NA
<b>Total</b>	<b>27,027</b>	<b>25,488</b>	<b>18,957</b>	<b>15,185</b>	<b>13,865</b>	<b>3,365</b>

**Sources:** U.S. Department of State, *Congressional Budget Justifications for Foreign Operations, Fiscal Years 2012, 2013, 2014, and 2015*; U.S. Department of Defense, *Reports to Congress on Foreign-Assistance Related Programs, Fiscal Years 2010, 2011, and 2012*.

**Notes:** DA=Development Assistance; GHP=Global Health Programs; INCLE=International Narcotics Control and Law Enforcement; NADR=Nonproliferation Anti-terrorism, Demining, and Related programs; IMET=International Military Education and Training; 1004=DOD counternarcotics aid; 2249c=DOD counterterrorism education and training; and 2561=DOD humanitarian aid.

a. DOD assistance data for FY2013, FY2014, and FY2015 are not yet available.

Most U.S. assistance is provided through the State Department and U.S. Agency for International Development (USAID), and is funded through annual Department of State, Foreign Operations, and Related Programs appropriations measures. A small portion of U.S. assistance for Brazil is provided through the Department of Defense (DOD), and is funded through annual DOD appropriations measures.

In recent years, USAID has begun working with Brazil's development agency, the Brazilian Cooperation Agency (*Agência Brasileira de Cooperação*, ABC), in third countries. Under these so-called trilateral development initiatives, the United States and Brazil share expertise and funding in order to accomplish common goals.<sup>54</sup> The Administration's FY2014 budget request included funding to strengthen ABC's capacity and implement jointly funded food security projects in countries such as Haiti, Honduras, and Mozambique. It also included funding designed to foster collaboration between the Centers for Disease Control and Prevention (CDC) and the Brazilian Ministry of Health in order to combat HIV/AIDS in Brazil and Lusophone Africa.<sup>55</sup>

A measure introduced in the 113<sup>th</sup> Congress, H.R. 571 (T. Ryan), would suspend foreign assistance to Brazil until the country amends its constitution to allow the extradition of Brazilian nationals. The bill, which was prompted by the case of a Brazilian woman who allegedly killed her American husband before fleeing to Brazil, has yet to advance.

## Commercial Relations

Trade policy has often been a contentious issue in U.S.-Brazilian relations. Over the past two decades, Brazil's trade policy has prioritized regional integration through the Common Market of the South (Mercosur)<sup>56</sup> and multilateral negotiations at the World Trade Organization (WTO).<sup>57</sup> Brazil is the industrial hub of Mercosur, which was established in 1991 and also includes Argentina, Paraguay, Uruguay, and Venezuela. While the bloc was created with the intention of incrementally advancing toward full economic integration, only a limited customs union has been achieved thus far. The group has also been plagued by internal disputes and frequent rule changes. Instead of serving as a platform for insertion into the global economy as originally envisioned, Mercosur has evolved into a more protectionist arrangement, shielding its members from external competition. Beginning in the 1990s, the United States sought to incorporate Mercosur and other sub-regional trade blocs into a hemisphere-wide Free Trade Area of the Americas (FTAA).<sup>58</sup> The initiative was effectively killed in 2005, however, when the United States was unable to persuade Brazil and the other members of Mercosur to continue the negotiations.

At the WTO, Brazil has played a key role in the Doha Round<sup>59</sup> of multilateral trade negotiations that began in 2001. It has led the G-20 group of developing nations in insisting that developed countries reduce agricultural tariffs and subsidies. Brazil has also resisted calls by the United States and other developed countries for increased access to developing nations' industrial and

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<sup>54</sup> Paulo Sotero, *Shaping U.S.-Brazil Relationship after the Snowden Affair: A Conversation with Ambassador Thomas A. Shannon*, Woodrow Wilson International Center for Scholars, Brazil Institute, Special Report, Washington, DC, February 2014, <http://www.wilsoncenter.org/sites/default/files/AmbassadorThomas%20Shannon%20-%20Final.pdf>.

<sup>55</sup> U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2014, Annex: Regional Perspectives*, July 2, 2013, <http://www.state.gov/documents/organization/208291.pdf>.

<sup>56</sup> For background information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>57</sup> João Augusto de Castro Neves, *Brazil's Slow and Uncertain Shift from Protectionism to Free Trade*, Inter-American Dialogue, Working Paper, January 2014, [http://www.thedialogue.org/uploads/CastroNeves\\_Trade.pdf](http://www.thedialogue.org/uploads/CastroNeves_Trade.pdf).

<sup>58</sup> For background information on the FTAA see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J. F. Hornbeck.

<sup>59</sup> For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

services sectors. In 2013, Brazil's widely respected diplomat and trade representative Roberto Azevêdo was appointed Director General of the WTO. He has sought to revive the Doha Round, successfully negotiating a small-scale agreement on trade facilitation measures in December 2013. Negotiations on more sensitive issues like agriculture reportedly remain stalled.<sup>60</sup>

Some Brazilian analysts have argued that the international trading system is undergoing a significant transformation and that Brazil should reconsider its current trade policy.<sup>61</sup> They maintain that large-scale agreements like the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)<sup>62</sup> could establish new and more comprehensive rules for trade and investment. By setting new global standards, the agreements could effectively bypass the current round of WTO negotiations and threaten Brazil's ability to shape the international trading system. The agreements could also place Brazilian companies at a competitive disadvantage and threaten the global market share of Brazilian exports. In order to remain relevant and take advantage of changing opportunities, these analysts argue that Brazil should conclude trade negotiations with the European Union (EU) and consider pursuing a trade agreement with the United States. While major shifts in trade policy appear to be unlikely in the near term, Brazil has already placed renewed emphasis on concluding an agreement between Mercosur and the EU.<sup>63</sup> Further policy shifts may depend on how the TPP and TTIP negotiations advance and economic conditions in Brazil.

## Bilateral Trade and Investment

Despite these differences in trade policy and the lack of a free trade agreement, U.S.-Brazil trade has grown considerably over the past decade (see **Figure 2**). Whereas total U.S. merchandise trade with the world increased 68% between 2004 and 2013, U.S.-Brazil merchandise trade increased 105% to \$71.7 billion during the same time period. U.S. goods exports to Brazil increased 218% to \$44.1 billion and U.S. goods imports from Brazil increased 30% to \$27.6 billion. As a result of the relatively faster growth of U.S. exports compared to imports (which declined significantly in the aftermath of the financial crisis), the United States has run a trade surplus in goods with Brazil since 2008. In 2013, the surplus was valued at \$16.6 billion.<sup>64</sup> Top U.S. goods exports to Brazil included heavy and electric machinery, refined oil products, and civilian aircraft and parts. Top U.S. goods imports from Brazil included crude oil, iron and steel, machinery, civilian aircraft, ethanol, and coffee. In 2013, Brazil was the United States' ninth-largest trading partner, and the United States was Brazil's second-largest trading partner, behind China.<sup>65</sup>

<sup>60</sup> "The World Trade Organization: Unaccustomed Victory," *The Economist*, December 14, 2013.

<sup>61</sup> See, for example, "Chances Perdidas," *Correio Braziliense*, January 2, 2014; Sonia Filgueiras, "Olhar do Planalto – Sob o Risco do Isolamento," *Brasil Econômico*, December 18, 2013; and Vera Thorstensen and Lucas Ferraz, *The Impacts of TTIP on Brazil*, Fundação Getúlio Vargas, Study Sponsored by the Confederação Nacional da Indústria (CNI), November 2013.

<sup>62</sup> For more information on these agreements, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson; and CRS Report R43387, *Transatlantic Trade and Investment Partnership (TTIP) Negotiations*, by Shayerah Ilias Akhtar and Vivian C. Jones.

<sup>63</sup> Carlos Caicedo, "Brazil Keen to Speed Up EU-Mercosur Free-Trade Deal at Expense of Argentina," *IHS Global Insight*, March 13, 2014.

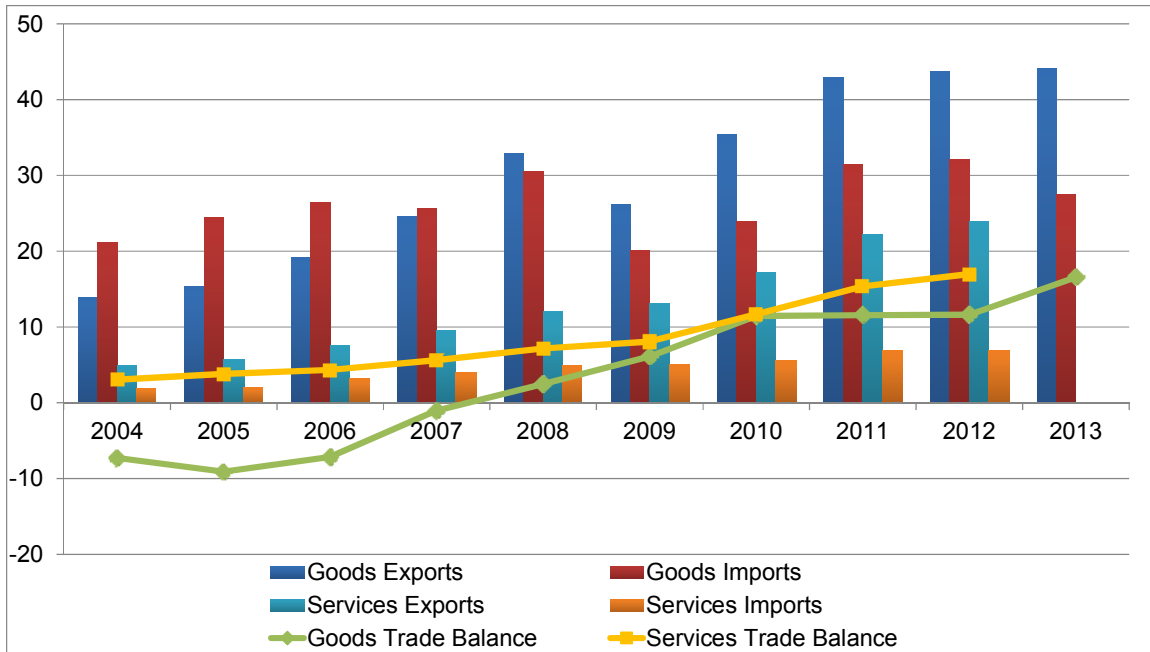
<sup>64</sup> U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, accessed March 2014.

<sup>65</sup> U.S. Department of Commerce and República Federativa do Brasil, Secretaria de Comércio Exterior (SECEX) data, (continued...)



**Figure 2. U.S. Trade with Brazil: 2004-2013**

In billions of U.S. dollars



**Source:** CRS presentation of U.S. Department of Commerce Data.

**Notes:** Services trade data are not yet available for 2013.

U.S.-Brazil services trade has grown even more quickly than merchandise trade, increasing by 356% between 2004 and 2012 (the most recent year for which data are available). In 2012, total trade in services amounted to \$30.7 billion. The United States continued to run a substantial trade surplus, valued at \$17 billion, as U.S. services exports to Brazil totaled \$23.9 billion and U.S. services imports from Brazil totaled \$6.9 billion. Travel, telecommunications, and royalties and license fees were the top categories of U.S. services exports to Brazil while business, professional, and technical services was the top category of U.S. services imports from Brazil.<sup>66</sup>

Brazil has traditionally benefited from the Generalized System of Preferences (GSP), which provides non-reciprocal, duty-free tariff treatment to certain products imported from designated developing countries. Legal authorization for the GSP program expired on July 31, 2013, and Congress has yet to renew it.<sup>67</sup> In 2012, the last full year that the GSP was in effect, Brazil was the third-largest beneficiary of the program. The country's duty free imports to the United States under the GSP program were valued at \$2.3 billion, equivalent to about 7% of all U.S. imports from Brazil in 2012.<sup>68</sup> Some observers have questioned the inclusion of Brazil and other upper-

(...continued)

as made available by *Global Trade Atlas*, accessed March 2014.

<sup>66</sup> U.S. Department of Commerce data, as made available by the Bureau of Economic Analysis, accessed March 2014.

<sup>67</sup> For more information on GSP and potential congressional reauthorization of the program, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>68</sup> U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, accessed March 2014.

middle-income countries in the GSP; the European Union removed such countries from its GSP program as of 2014.<sup>69</sup>

Foreign direct investment (FDI) between the United States and Brazil currently flows mostly in one direction, towards Brazil. As of 2012 (the most recent year for which data are available), the accumulated stock of U.S. FDI in Brazil was \$79.4 billion, with significant investments in manufacturing and finance, among other sectors. Brazilian FDI in the United States has increased considerably over the past decade, but remains low by comparison. In 2012, the stock of Brazilian FDI in the United States totaled \$3.6 billion.<sup>70</sup>

### Cotton Dispute<sup>71</sup>

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

The United States reached a temporary agreement with Brazil in June 2010 to avoid the WTO-sanctioned retaliatory measures. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress had an opportunity to adjust the subsidy program in the farm bill reauthorization.<sup>72</sup>

The U.S. government stopped complying with the temporary agreement in 2013, however, making only a portion of the required monthly payment in September 2013 and then stopping payments altogether as of October 2013. Secretary of Agriculture Tom Vilsack reportedly asserted that the partial payment was required by budget sequestration and that he had no authority to continue making payments once the farm bill expired at the end of September.<sup>73</sup> The suspension of payments led the Brazilian government to once again explore retaliatory measures.<sup>74</sup>

<sup>69</sup> European Commission, "New GSP as of 2014," December 18, 2013.

<sup>70</sup> U.S. Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data," accessed March 2014.

<sup>71</sup> For more information on the U.S.-Brazil WTO cotton dispute, see CRS Report R43336, *Status of the WTO Brazil-U.S. Cotton Case*, by Randy Schnepf.

<sup>72</sup> 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.

<sup>73</sup> William Mauldin, "U.S. to Stop Brazil Farm Payments; Sequester Will Stop Assistance Related to Cotton Dispute," *Wall Street Journal*, August 7, 2013.

<sup>74</sup> República Federativa do Brasil, Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 105, de 18 de Dezembro de 2013*.

Congress passed a new farm bill (P.L. 113-79) that President Obama signed into law on February 7, 2014. The conference report accompanying the act (H.Rept. 113-333) states that the legislation includes several substantive changes to U.S. cotton support programs and the export credit guarantee program in order to resolve the dispute with Brazil. Nevertheless, Brazil's Foreign Trade Board (*Câmara de Comércio Exterior*, CAMEX) maintains that the new farm bill contains elements that will continue to distort the international cotton market, and it has authorized the Brazilian government to request a WTO panel to assess whether the farm bill brings the United States into compliance with previous rulings.<sup>75</sup> The Brazilian government has reportedly decided not to immediately request such a panel and instead enter into negotiations with the United States in hope of achieving a mutually agreeable resolution.<sup>76</sup>

## Energy Ties

Energy has been another important area of U.S.-Brazilian cooperation in recent years. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through the development of alternative energy resources and increased domestic production. In addition to being the world's second-largest producer of ethanol (after the United States), Brazil generates 80% of its electricity through hydropower.<sup>77</sup> Brazil also has discovered large offshore oil deposits that have the potential to turn the country into a major oil and gas producer and an important source of energy for the United States. To facilitate greater cooperation in the development of safe, secure, and affordable energy, President Obama and President Rousseff launched a Strategic Energy Dialogue in March 2011.

## Biofuels

In response to sharp increases in global oil prices in the 1970s, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol. Today, most cars in Brazil are capable of running on pure ethanol, which is available at nearly every fueling station, or gasoline, which is required to include a 20%-25% ethanol blend.<sup>78</sup> Ethanol's share of the Brazilian light-duty fuel market reportedly declined from 50% in 2009 to 30% in 2012, however, as the Brazilian government held down gasoline prices as part of its efforts to control inflation.<sup>79</sup> Government policy and international sugar prices that have provided incentives for sugarcane processors to produce sugar rather than ethanol have contributed to lower levels of investment and production in the ethanol industry. In 2012, Brazil produced 405,000 barrels per day of ethanol, which was more than it produced in 2011 but less than it produced 2010.<sup>80</sup> The Brazilian government has sought to provide some relief to the ethanol industry by raising gasoline prices, increasing the ethanol blend requirement from 20% to 25%, and reducing taxes on ethanol. Nevertheless, some analysts maintain that the lack of transparency and certainty

<sup>75</sup> CAMEX, "CAMEX Autoriza Abertura de Painel na OMC sobre Legislação Agrícola Norte-Americana," February 19, 2014.

<sup>76</sup> "Brazil Threatens Compliance Panel Over Farm Bill; Pursues Negotiations First," *Inside U.S. Trade*, February 20, 2014.

<sup>77</sup> U.S. Energy Information Administration (EIA), *Country Analysis Briefs: Brazil*, October 1, 2013.

<sup>78</sup> *Ibid.*

<sup>79</sup> Claire Casey, "Is Brazil the Energy Power of the Future (and Always Will Be)?," *Americas Quarterly*, (Summer 2013).

<sup>80</sup> EIA, October 2013, *op.cit.*

regarding how gasoline prices are determined are likely to continue to discourage investment in the industry.<sup>81</sup>

In 2007, the United States and Brazil, the world's two largest ethanol-producing and consuming countries, signed a memorandum of understanding to promote greater cooperation on ethanol and other biofuels. The agreement involves (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and (3) multilateral efforts to advance the global development of biofuels.<sup>82</sup>

Since then, the United States and Brazil have moved forward on all three facets of the agreement. Bilaterally, the U.S. and Brazilian governments are attempting to improve methods for modeling the sustainability of biofuels, including their effects on greenhouse gas emissions and land use, and exchanging information on how to maximize fuel economy in flex-fuel vehicles. They are also coordinating efforts to develop sustainable aviation biofuels. At the same time, the U.S. and Brazilian governments are working together in third countries, and have provided joint technical assistance designed to strengthen policy frameworks, implement blending laws, and develop domestic production capabilities in the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal. Multilaterally, the United States and Brazil are working with other members of the Global Bioenergy Partnership (GBEP) to promote the sustainable production and use of modern bioenergy.<sup>83</sup>

In addition to these efforts, Brazil and the United States have taken steps to liberalize trade in ethanol. In December 2011, the Brazilian government issued a resolution to extend its duty-free treatment of imported ethanol until December 31, 2015.<sup>84</sup> Similarly, the U.S. Congress allowed a 54-cent-per-gallon duty on imported ethanol to expire at the end of 2011. Prior to its expiration, the duty served as a significant barrier to direct imports of Brazilian ethanol in most years.<sup>85</sup> Total bilateral ethanol trade has actually declined since then, however, falling from 33,000 barrels per day in 2011 to 19,000 barrels per day in 2013. This decline is the result of lower U.S. exports to Brazil, as imports from Brazil have increased from 7,000 barrels per day to 16,000 barrels per day during the same time period. In 2013, U.S. imports from Brazil were equivalent to about 1.8% of total U.S. ethanol consumption.<sup>86</sup>

## Oil

Since 2007, Brazil has discovered substantial new offshore oil fields that have the potential to turn the country into one of the top five oil and gas producers in the world<sup>87</sup> and an important

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<sup>81</sup> Casey, 2013, op.cit.

<sup>82</sup> U.S. Department of State, Office of the Spokesman, "Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels," March 9, 2007, <http://www.state.gov/p/wha/rls/158654.htm>.

<sup>83</sup> White House, Office of the Press Secretary, "Fact Sheet: The U.S.-Brazil Strategic Energy Dialogue," April 9, 2012.

<sup>84</sup> Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 94, de 8 de Dezembro de 2011*.

<sup>85</sup> Although some Brazilian ethanol was allowed to enter the United States duty-free after being reprocessed in Caribbean Basin Initiative (CBI) countries, such imports could only account for up to 7% of the U.S. ethanol market. A 2.5% ad valorem tariff on ethanol imports to the United States remains in place permanently unless the Harmonized Tariff Schedule code is changed.

<sup>86</sup> EIA, "Petroleum & Other Liquids: Data," accessed March 2014.

<sup>87</sup> Mark S. Langevin, *Brazil's Hydrocarbon Bonanza: Can the State Manage Pre-Salt Production for National Development and Geopolitical Power?*, Brazil-Works, Discussion Paper, May 2012.

source of energy for the United States. The new discoveries are so-called “pre-salt” reserves, located beneath layers of rock and salt more than 18,000 feet below the ocean surface. Some energy analysts have estimated that the total recoverable reserves of pre-salt oil and natural gas may exceed 50 billion barrels of oil equivalent.<sup>88</sup> Brazil’s proven oil reserves stood at 15.3 billion barrels at the end of 2012, accounting for slightly less than 1% of global reserves.<sup>89</sup> Nearly 94% of Brazil’s proven reserves are located offshore.<sup>90</sup>

In December 2010, the Brazilian Congress approved a new regulatory framework for developing the approximately 70% of pre-salt reserves that had not already been auctioned off.<sup>91</sup> The new framework increased the role of the Brazilian government and is designed to ensure that the country’s oil reserves are used to fuel long-term economic and social development. Among other provisions, the framework establishes state-owned *Petróleo Brasileiro S.A.* (Petrobras) as the sole operator for all new offshore projects; replaces the existing concessionary model with a production sharing regime; guarantees Petrobras a minimum 30% stake in all new joint ventures; creates a new public company—*Petrosal*—to manage the development of the offshore reserves; increases local content requirements; and creates a new social fund overseen by the Brazilian Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.<sup>92</sup> The Brazilian Congress continued to debate a new law regarding the distribution of oil royalties until March 2013.<sup>93</sup>

The delay in approving the new regulatory framework and royalty distribution law prevented Brazil’s National Agency of Petroleum, Natural Gas, and Biofuels (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*, ANP) from auctioning new concessions for nearly five years. As a result, oil production did not increase as quickly as originally predicted and actually slightly declined between 2011 and 2012 to 2.1 million barrels per day.<sup>94</sup> Even so, the Brazilian government received record revenues from the oil industry in 2012 that amounted to about \$14 billion (R\$31.8 billion).<sup>95</sup>

The ANP held its first auction of pre-salt concessions under the new regulatory framework in October 2013. While the ANP reportedly had expected more than 40 companies to participate, only 11 companies signed up for the auction, and a consortium of five companies (Petrobras, Royal Dutch Shell, Total, China National Petroleum Corporation, and China National Offshore Oil Corporation) was the sole bidder.<sup>96</sup> The Brazilian government declared the auction a success, but some energy analysts maintain that the country will need to modify the new regulatory

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<sup>88</sup> EIA, October 2013, op.cit.

<sup>89</sup> BP, *BP Statistical Review of World Energy*, June 2013, p. 6, [http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical\\_review\\_of\\_world\\_energy\\_2013.pdf](http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf).

<sup>90</sup> Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), *Oil, Natural Gas and Biofuels Statistical Yearbook 2013*, 2013, p. 26.

<sup>91</sup> Langevin, 2012, op.cit.

<sup>92</sup> “Brazil Congress Passes Oil Industry Overhaul,” *Reuters*, December 1, 2010; “The Impact of Pre-Salt: A Long-Term Perspective,” *Oxford Analytica*, May 2010.

<sup>93</sup> The royalty distribution law has not yet gone into effect as it is being challenged in Brazil’s Supreme Court.

<sup>94</sup> BP, June 2013, op.cit., p.8.

<sup>95</sup> ANP, 2013, op.cit.

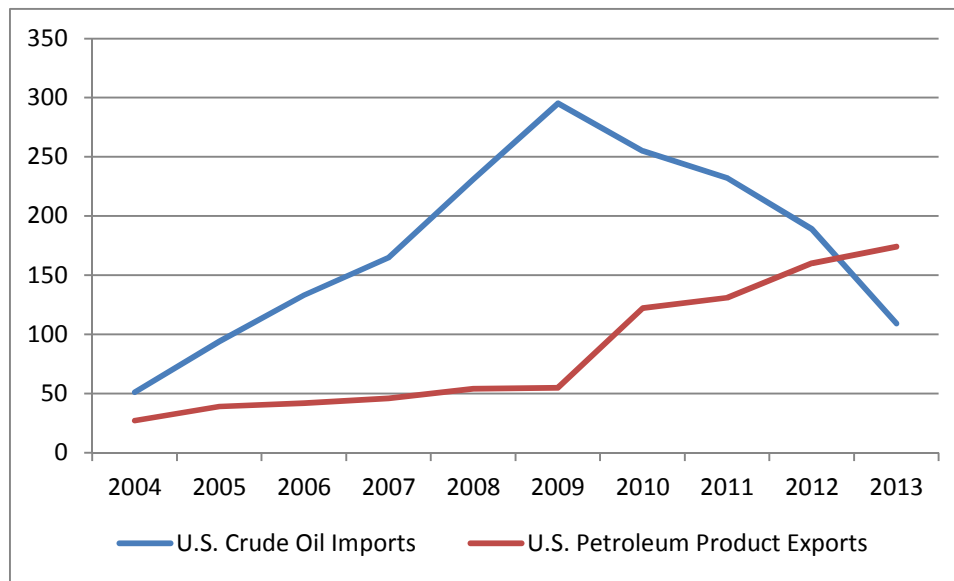
<sup>96</sup> “Weak Libra Interest Rounds Out a Rough Week for Brazil’s Rousseff,” *Latin News Daily Report*, September 20, 2013; “Brazil’s Oil Revolution Gets Off to a Slippery Start,” *Latin News Daily Report*, October 22, 2013.

framework prior to auctioning other concessions in order to attract the investment necessary to develop its reserves and accelerate production.<sup>97</sup>

U.S.-Brazilian oil trade has expanded significantly over the past decade (see **Figure 3**). U.S. crude oil imports from Brazil grew rapidly from 51,000 barrels per day in 2004 to 295,000 barrels per day in 2009. They have declined since then, however, as U.S. consumption has fallen and U.S. domestic production has increased. In 2013, the United States imported 109,000 barrels per day of crude oil from Brazil, which was equivalent to about 1.4% of total U.S. crude imports. U.S. exports of refined products to Brazil have also grown quickly, increasing 544% from 27,000 barrels per day in 2004 to 174,000 barrels per day in 2013. As a result, U.S. refined product exports to Brazil exceeded U.S. crude imports from Brazil for the first time in at least a decade in 2013.<sup>98</sup> Brazil has been forced to increasingly rely on imports as its consumption has grown more quickly than its production and refinery capacity. Some energy analysts expect this trend to continue until at least 2017, when two new Brazilian refineries are scheduled to begin operations.<sup>99</sup>

**Figure 3. U.S. Oil Trade with Brazil: 2004-2013**

In thousands of barrels per day



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

## Security Cooperation

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

<sup>97</sup> Matthew Cowley and Paulo Trevisani, "Brazil Seen Having to Alter Oil Rules," *Wall Street Journal*, October 22, 2013.

<sup>98</sup> EIA, "Petroleum & Other Liquids: Data," accessed March 2014.

<sup>99</sup> Jeb Blount, "Analysis: Petrobras Fuel Woes Make Brazil Dependent on U.S., India," *Reuters*, January 22, 2014.

## Counternarcotics

While Brazil is not a major drug-producing country, it is the world's second-largest consumer of cocaine hydrochloride and likely the world's largest consumer of cocaine-base products. It also serves as a transit point for illicit drugs destined for Europe.<sup>100</sup> Security analysts contend that organized crime in Brazil has increased in scope and scale over the past decade as the drug trade has expanded. Some of the country's large, well-organized, and heavily armed criminal groups, such as the Red Command (*Comando Vermelho*, CV) and the First Capital Command (*Primeiro Comando da Capital*, PCC), have reportedly begun to operate transnationally, eliminating intermediaries in order to control cross-border trafficking.<sup>101</sup>

In recognition of these challenges, Brazil has taken several steps to improve its antidrug efforts. In 2004, it implemented an air bridge denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also sought to improve security along the 15,719 kilometer border that it shares with 10 nations, including the region's cocaine producers—Bolivia, Colombia, and Peru. Under its Strategic Border Plan, introduced in June 2011, the Brazilian government has reportedly deployed inter-agency resources, including unmanned aerial vehicles (UAVs), to monitor illicit activity in high-risk locations along its borders and in the remote Amazon region. It has also signed agreements and carried out joint operations with neighboring countries.<sup>102</sup> In 2013, Brazilian authorities reportedly seized 35.7 metric tons of cocaine and 220.8 metric tons of marijuana.<sup>103</sup>

In 2008, the U.S. and Brazilian governments signed a memorandum of understanding designed to enhance the capacity of Brazilian authorities to combat drug trafficking and reduce domestic drug demand. To these ends, the United States provided support to a canine unit and special investigation units within the Brazilian Federal Police, and provided support to non-governmental organizations that work with addicts and their families in 2013.<sup>104</sup> U.S. counternarcotics assistance to Brazil amounted to \$2 million in FY2011, \$3.5 million in FY2012, and \$1.9 million in FY2013.<sup>105</sup> The Obama Administration did not request any counternarcotics assistance for Brazil in FY2014 or FY2015.<sup>106</sup>

<sup>100</sup> U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report (INCSR), Volume I: Drug and Chemical Control*, March 2014, <http://www.state.gov/j/inl/rls/nrcrpt/2014/vol1/222851.htm>.

<sup>101</sup> Robert Muggah and Gustavo Diniz, *Securing the Border: Brazil's "South America First" Approach to Transnational Organized Crime*, Igarapé Institute, Strategic Paper 5, October 2013, [http://pt.igarape.org.br/wp-content/uploads/2013/10/SP\\_05\\_EN\\_Securing-the-border\\_7th\\_oct.pdf](http://pt.igarape.org.br/wp-content/uploads/2013/10/SP_05_EN_Securing-the-border_7th_oct.pdf).

<sup>102</sup> U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report (INCSR), Volume I: Drug and Chemical Control*, March 7, 2012, <http://www.state.gov/j/inl/rls/nrcrpt/2012/vol1/184098.htm#Brazil>; "Hermes 450: O Vigilante Das Fronteiras Brasileiras," *Terra* (Brazil), August 25, 2011; "Brazil-Region: Flying Start for the New 'Border Strategy,'" *Latin American Security & Strategic Review*, July 2011.

<sup>103</sup> *INCSR*, 2014, op.cit.

<sup>104</sup> *Ibid.*

<sup>105</sup> U.S. Department of State, USAID, and U.S. Department of Defense data as presented by the *Foreign Assistance Dashboard*, accessed March 2014.

<sup>106</sup> U.S. State Department, *Congressional Budget Justification for Foreign Operations, Fiscal Year 2014*, May 17, 2013, and *Congressional Budget Justification, Department of State, Foreign Operations, and Related Programs, Fiscal Year 2015*, March 4, 2014.

## Counterterrorism<sup>107</sup>

The Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay has long been used for arms smuggling, money laundering, and other illicit purposes. According to the State Department's *Country Reports on Terrorism*, there are no known operational cells of al Qaeda or Hezbollah-related groups in the Western Hemisphere; however, the United States remains concerned that proceeds from legal and illegal goods flowing through the TBA could potentially be diverted to support terrorist groups.<sup>108</sup> For example, in December 2010, the U.S. Treasury Department sanctioned Hezbollah's chief representative in South America, Bilal Mohsen Wehbe, for transferring funds collected in Brazil to Hezbollah in Lebanon. According to the Treasury Department, Wehbe and an associate raised more than \$500,000 from Lebanese businessmen in the TBA following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly had overseen Hezbollah's counterintelligence activity in the TBA and had worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.<sup>109</sup>

The U.S. government has worked with Brazil to address concerns about the TBA and strengthen the country's counterterrorism capabilities. The countries of the TBA and the United States created the "3+1 Group on Tri-Border Area Security" in 2002, and the group built a Joint Intelligence Center to combat trans-border criminal organizations in 2007. Within Brazil, the United States has supported efforts to implement the Container Security Initiative (CSI) at the port of Santos, and has sought to strengthen Brazil's capacity to secure its borders and conduct terrorism-related investigations. U.S. authorities are currently assisting Brazil with major event security management as it prepares to host the 2014 World Cup and 2016 Summer Olympic Games.<sup>110</sup>

The State Department's *Country Reports on Terrorism* for 2012 recognized the Brazilian government's continued support for counterterrorism-related activities, including investigating potential terrorism financing and document forgery networks.<sup>111</sup> However, Brazil has yet to adopt legislation to make terrorism and terrorism financing autonomous offenses. Like many other Latin American nations, Brazil has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as terrorism by repressive military regimes in the past. Despite these challenges, some Brazilian legislators have renewed their efforts to enact an anti-terrorism law, maintaining that Brazil needs to strengthen its legal framework in advance of the upcoming major sporting events.<sup>112</sup>

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<sup>107</sup> For more information on terrorism concerns in Latin America, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan and June S. Beittel.

<sup>108</sup> U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2012*, May 30, 2013, <http://www.state.gov/j/ct/rls/crt/2012/209984.htm>.

<sup>109</sup> U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," Press Release, December 9, 2010.

<sup>110</sup> *Country Reports on Terrorism 2012*, May 2013, op.cit.

<sup>111</sup> Ibid.

<sup>112</sup> Fernanda Odilla and Gabriela Guerreiro, "Lei Antiterrorismo Pode Dar Pena de Até 40 Anos a Manifestantes," *Folha de São Paulo*, February 12, 2014; Paloma Rodrigues, "Após Morte de Cinegrafista, Senado Tenta Acelerar 'Lei Antiterror'," *CartaCapital*, February 11, 2014.



## Defense

According to General John F. Kelly, Commander of U.S. Southern Command, challenges in broader bilateral relations have affected U.S.-Brazilian defense ties, but military-to-military cooperation at the operational and tactical levels remains strong.<sup>113</sup> The U.S. and Brazilian militaries have worked together closely in Haiti, where Brazil commands the U.N. Stabilization Mission (MINUSTAH). Joint efforts in the aftermath of Haiti's January 2010 earthquake were the largest combined operations of U.S. and Brazilian military forces since World War II. Other areas of military-to-military cooperation include information exchanges, combined military training, and joint military exercises. In April 2010, the U.S. and Brazilian governments signed a Defense Cooperation Agreement designed to promote cooperation in areas such as research and development, technology security, and acquisition of defense products and services. This was followed by a General Security of Military Information Agreement, signed in November 2010, which is designed to facilitate the sharing of classified defense and military information.<sup>114</sup> Both agreements still need to be approved by the Brazilian Congress. Additional coordination takes place through a presidential-level Defense Cooperation Dialogue, which President Obama and President Rousseff launched in April 2012.

As noted above, the United States provides International Military Education and Training (IMET) aid to Brazil. The assistance is designed to strengthen military-to-military relationships, increase the professionalization of Brazilian forces, and enhance Brazil's capacity to assume a larger role in peacekeeping operations and in combating terrorism. IMET assistance amounted to \$631,000 in FY2011, \$638,000 in FY2012, and \$572,000 in FY2013. Brazil is receiving an estimated \$625,000 in IMET in FY2014, and the Administration has requested \$625,000 in IMET assistance for Brazil in FY2015.<sup>115</sup>

Two defense procurement deals have received considerable attention in recent years. In February 2013, the U.S. Air Force awarded a \$427 million contract for light air support aircraft and associated maintenance and training to Brazil's Embraer S.A. and its U.S.-based partner, Sierra Nevada Corp. Under the contract, Embraer will provide 20 *A-29 Super Tucano* aircraft to the Afghan military for advanced flight training, surveillance, close air support, and air interdiction missions.<sup>116</sup> The U.S. Air Force had originally awarded the contract to Embraer in December 2011, but the order was cancelled after U.S.-based Hawker Beechcraft challenged the procurement process.

Some observers assumed that the U.S. contract with Embraer increased the likelihood that Brazil would award a contract for 36 new fighter jets to Boeing. Brazil awarded the \$4.5 billion contract to Sweden's Saab AB in December 2013, however, choosing the Gripen NG over Boeing's F/A-18 Super Hornet. While the decision appears to have been at least partially a reaction to alleged NSA surveillance activities inside Brazil, there were also other considerations.<sup>117</sup> The Brazilian

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<sup>113</sup> General John F. Kelly, Commander, United States Southern Command, *Posture Statement before the 113<sup>th</sup> Congress House Armed Services Committee*, February 26, 2014, p. 21, [http://www.southcom.mil/newsroom/Documents/2014\\_SOUTHCOM\\_Posture\\_Statement\\_HASC\\_FINAL\\_PDF.pdf](http://www.southcom.mil/newsroom/Documents/2014_SOUTHCOM_Posture_Statement_HASC_FINAL_PDF.pdf).

<sup>114</sup> U.S. Department of Defense, Office of the Secretary of Defense, "Fact Sheet: U.S.-Brazil Defense Cooperation," March 14, 2011.

<sup>115</sup> U.S. Department of State, *Congressional Budget Justifications for Foreign Operations, Fiscal Years 2013, 2014, and 2015*, available at <http://www.state.gov/e/releases/iab/index.htm>.

<sup>116</sup> "Brazilian Firm to Provide Aircraft to Afghan Air Force," *American Forces Press Service*, February 27, 2013.

<sup>117</sup> Alfonso Soto and Brian Winter, "Saab Wins Brazil Jet Deal after NSA Spying Sours Boeing Bid," *Reuters*, (continued...)

Air Force announced its preference for the Gripen in January 2010, reportedly citing its lower purchase and maintenance costs and the ability to transfer more technology to Brazil.<sup>118</sup> Given Brazil's current economic challenges and the fact that some Brazilian officials were already wary of relying on U.S. hardware as a result of past experiences in which the U.S. government blocked sales of Brazilian arms containing U.S. technology,<sup>119</sup> the NSA allegations may have been enough to push Boeing out of the running.

## Promotion of Racial Equality

Brazil has experienced significant improvements in economic and social conditions over the past decade; however, considerable socioeconomic disparities between races persist. While Afro-Brazilians comprise about half of the Brazilian population,<sup>120</sup> they account for less than 25% of Brazilians that have completed post-secondary degrees and 17% of Brazilians that have completed graduate degrees.<sup>121</sup> In 2010, the median income of Afro-Brazilians was 64% of the median income of white Brazilians.<sup>122</sup> Even after controlling for education, occupation, and location, white Brazilians reportedly receive higher wages than Afro-Brazilians.<sup>123</sup> Moreover, Afro-Brazilians are disproportionately the victims of Brazil's high levels of crime and violence. In 2010, the homicide rate for Afro-Brazilians was 36.5 per 100,000—nearly two and a half times the rate of other Brazilians.<sup>124</sup>

In order to reduce racial disparities, the Brazilian government has enacted a series of antidiscrimination and affirmative action measures. Brazil became the first Latin American country to endorse racial quotas in government service in 2002, and became the first country in the world to establish a special secretariat with a ministerial rank to manage racial equity promotion policies in 2003. In 2010, Brazil enacted the Statute of Racial Equality. Among other provisions, the law offers tax incentives for businesses that undertake racial inclusion, calls on the government to adopt affirmative action programs, and reaffirms that African and Afro-Brazilian history should be taught in all elementary and middle schools. In 2012, Brazil adopted a law that requires federal universities to reserve half of their admissions spots for students who are Afro-Brazilian, indigenous, or graduates of public high schools (which tend to serve the poorest students). The law gradually increases the admissions spots required to be reserved from 12.5% in 2013 to 50% in 2016, with half of the reserved spots set aside for low income students of all races with the highest grades and the other half divided in accordance with the racial makeup of each state.<sup>125</sup> Most recently, President Rousseff has proposed reserving 20% of jobs in the federal

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December 18, 2013.

<sup>118</sup> Raymond Colitt, "Brazil Air Force Prefers Swedish Jets – Report," *Reuters*, January 5, 2010.

<sup>119</sup> In 2006, for example, the United States prevented Brazil from selling 24 *Super Tucano* light attack planes to Venezuela.

<sup>120</sup> According to Brazil's 2010 census, 43.1% of Brazilians self-identify as *parda* ("brown") and 7.6% self-identify as *preta* ("black"). IBGE, *Censo Demográfico 2010*, November 2011.

<sup>121</sup> Tatiana Dias Silva and Fernanda Lira Goes, *Igualdade Racial no Brasil: Reflexões no Ano Internacional dos Afrodescendentes*, Instituto de Pesquisa Econômica Aplicada (IPEA), Rio de Janeiro, 2013, p. 20.

<sup>122</sup> IBGE, 2011, op.cit.

<sup>123</sup> Dias & Goes, 2013, op.cit., p.21.

<sup>124</sup> Daniel R. C. Cerqueira and Rodrigo Leandro de Moura, *Vidas Perdidas e Racismo no Brasil*, IPEA, Nota Técnica Nº 10, Brasília, November 2013, p. 6.

<sup>125</sup> Simon Romero, "Brazil Enacts Affirmative Action Law for Universities," *New York Times*, August 30, 2012; (continued...)

government for Afro-Brazilians.<sup>126</sup> Although race-based affirmative action policies have been rather controversial among some sectors of the Brazilian population,<sup>127</sup> they have been upheld as constitutional by the Brazilian Supreme Court.

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative recognizes that Brazil and the United States are multi-ethnic, multi-racial democracies, and seeks to promote equality of opportunity for the members of all racial and ethnic communities. To that end, Brazil and the United States share best practices through activities such as training programs, workshops, technical expert exchanges, scholarships, and public-private partnerships.<sup>128</sup> Current areas of focus include expanding access to education for students of African descent, eliminating racial health disparities, mitigating environmental impacts in communities of African descent, addressing challenges in criminal justice systems, and guaranteeing equal access to economic opportunities.<sup>129</sup> H.Rept. 113-185, which is considered part of the explanatory statement accompanying the Consolidated Appropriations Act, 2014 (P.L. 113-76), recognizes the work being done under the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality, and states that the legislation includes funds to continue the initiative in FY2014.

## Amazon Conservation

The Amazon Basin is estimated to span more than 6.8 million square kilometers. It produces about 20% of the world's fresh water discharge and contains the largest remaining rainforest on Earth.<sup>130</sup> In addition to supporting significant biological diversity, the Amazon Rainforest is a global sink for carbon emissions and an important asset in the mitigation of climate change. The forest biomass is estimated to hold about 100 billion tons of carbon, which is equivalent to more than 10 years of global fossil fuel emissions.<sup>131</sup>

Although the Amazon Basin is shared by seven nations,<sup>132</sup> 69% of it lies within Brazil.<sup>133</sup> The Brazilian Amazon was largely undeveloped until the 1960s, when the military government began subsidizing the settlement and development of the region as a matter of national security. Partially

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"Rousseff Decreases Affirmative Action," *Latin News Daily Report*, October 16, 2012.

<sup>126</sup> Tatiana Dias Silva and Josenilton Marques da Silva, *Reserva de Vagas para Negros em Concursos Públicos: Uma Análise a partir do Projeto de Lei 6.738/2013*, (IPEA), Nota Técnica N° 17, Brasília, February 2014.

<sup>127</sup> See, for example, Diogo Schelp, "Queremos Dividir o Brasil como na Foto?" *Veja*, September 2, 2009; and Julia Carvalho, "O Grande Erro das Cotas," *Veja*, August 29, 2012.

<sup>128</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality," April 11, 2012.

<sup>129</sup> U.S. Department of State, Office of the Spokesperson, "Steering Group Meeting of the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality," Media Note, July 17, 2013.

<sup>130</sup> United Nations Environment Programme (UNEP), *Global International Waters Assessment: Amazon Basin*, GIWA Regional Assessment 40b, Kalmar, Sweden, 2004, [http://www.unep.org/dewa/giwa/areas/reports/r40b/giwa\\_regional\\_assessment\\_40b.pdf](http://www.unep.org/dewa/giwa/areas/reports/r40b/giwa_regional_assessment_40b.pdf).

<sup>131</sup> Eric A. Davidson et al., "The Amazon Basin in Transition," *Nature*, vol. 481 (January 19, 2012), p. 321.

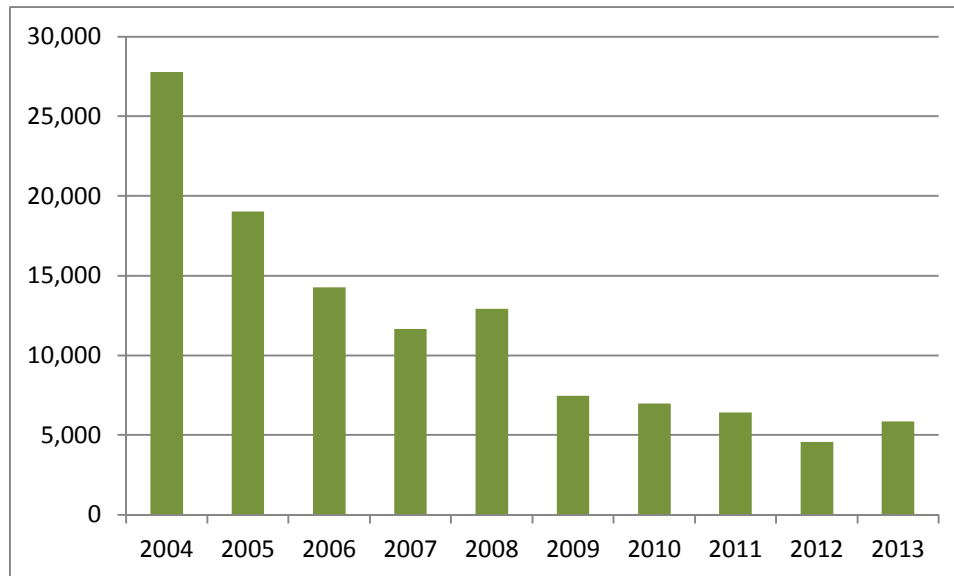
<sup>132</sup> The seven nations that share the Amazon Basin are Brazil, Bolivia, Colombia, Ecuador, Guyana, Peru, and Venezuela. The Amazon Rainforest extends beyond the Amazon Basin into Suriname and French Guiana.

<sup>133</sup> UNEP, 2004, op.cit.

as a result of these incentives, the human population grew from 6 million in 1960 to 25 million in 2010. Forest cover in the Brazilian Amazon has declined to about 80% of its original area as a result of settlements, roads, logging, farming, and other activities in the region.<sup>134</sup>

**Figure 4. Deforestation in the Brazilian Amazon: 2004-2013**

In square kilometers



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

Recognizing that continued destruction of the Amazon Rainforest is damaging to Brazil's global image and could threaten energy generation and agricultural production in the future,<sup>135</sup> the Brazilian government has implemented a series of policies designed to slow deforestation. From 2004 to 2011, for example, Brazil increased the size of its nature reserves by 500,000 square kilometers. Likewise, the Brazilian government adopted a plan to reduce the rate of Amazon deforestation by 80%—based on the 1996-2005 average—to 3,925 square kilometers per year by 2020. To meet this target, the Brazilian government is increasing surveillance, replanting forest, and financing sustainable development projects.<sup>136</sup> Brazil appears to be on track to achieve its goal, as annual deforestation has fallen from 27,772 square kilometers in 2004 to 5,843 square kilometers in 2013 (see **Figure 4**).<sup>137</sup> There is considerable debate, however, as to whether these decreases are the result of government policies or changing economic circumstances, such as lower commodity prices. According to a 2012 study, about half of the reduction in deforestation

<sup>134</sup> Davidson et al., 2012, op.cit., p.321.

<sup>135</sup> See, for example, Fabiana Frayssinet, "Climate Change-Brazil: Farmers 'Have Good Reason to Worry,'" *Inter Press Service*, September 21, 2011; and "Amazonian Deforestation May Cut Rainfall by a Fifth: Study," *Agence France Presse*, September 5, 2012.

<sup>136</sup> República Federativa do Brasil, Ministério do Meio Ambiente, *Plano de Ação para Prevenção e Controle do Desmatamento na Amazônia Legal (PPCDAm): 3ª Fase (2012-2015)*, Brasília, June 2013.

<sup>137</sup> República Federativa do Brasil, Ministério da Ciência, Tecnologia e Inovação, Instituto Nacional de Pesquisas Espaciais (INPE), *Projeto PRODES, Monitoramento da Floresta Amazônica Brasileira por Satélite*, accessed March 2013.

in the Brazilian Amazon between 2005 and 2009 was attributable to the Brazilian government's conservation policies.<sup>138</sup>

Despite recent progress, Brazil's deforestation rate increased by nearly 28% between 2012 and 2013—a development that some analysts have attributed to government policy changes. In 2011, President Rousseff signed a law transferring responsibility for environmental oversight of non-federal lands from Brazil's federal environmental protection agency to local officials. While the federal government maintains that local officials are better placed to manage such resources, critics argue that local authorities lack the necessary finances and are more susceptible to intimidation and corruption.<sup>139</sup> Many environmentalists are also concerned about changes to Brazil's forest code—a law that requires rural landowners to set aside 20%-80% of their land for natural vegetation. The Brazilian Congress approved a major overhaul of the code in 2012. Although President Rousseff vetoed some of the most controversial provisions, the final version reportedly relaxed conservation requirements for environmentally sensitive areas like river banks, reduced reforestation requirements for land that had already been deforested, and decreased the total amount of forest that must be preserved.<sup>140</sup> Supporters of the reform assert that it was necessary in order to bring farmers into compliance with the law, and argue that the updated forest code remains among the strictest regulations of privately owned property in the world.<sup>141</sup>

In recent years, the United States has provided assistance to Brazil designed to support tropical forest conservation through the promotion of sustainable land use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and other organizations working throughout the Amazon Basin to conserve the forest's biodiversity. USAID provided Brazil with \$11.5 million for environmental programs in FY2011, \$10.8 million in FY2012, and \$9.6 million in FY2013.<sup>142</sup> The explanatory statement<sup>143</sup> accompanying the Consolidated Appropriations Act, 2014 (P.L. 113-76) stipulates that \$10.5 million of the funds appropriated by the act should support environmental programs in the Brazilian Amazon in FY2014. As was the case in FY2013 and FY2014, the Obama Administration has not requested any funding for environmental programs in Brazil in FY2015.<sup>144</sup>

In addition to providing foreign aid, the United States has signed a debt-for-nature agreement with Brazil under the Tropical Forest Conservation Act of 2008 (P.L. 105-214). According to the August 2010 agreement, the United States is reducing Brazil's debt payments by \$21 million over five years. In exchange, the Brazilian government is committing those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable

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<sup>138</sup> Juliano Assunção, Clarissa C. e Grandour, and Rudi Rocha, *Deforestation Slowdown in the Legal Amazon: Prices or Policies*, Climate Policy Initiative, Working Paper, Rio de Janeiro, February 6, 2012, <http://climatepolicyinitiative.org/wp-content/uploads/2012/03/Deforestation-Prices-or-Policies-Working-Paper.pdf>.

<sup>139</sup> Paulo Prada, "Special Report: Brazil Backslides on Protecting the Amazon," *Reuters*, August 3, 2012.

<sup>140</sup> "Brazil President Makes Final Changes to Forestry Law," *Agence France Presse*, October 18, 2012.

<sup>141</sup> Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," *Reuters*, June 1, 2011; Kátia Abreu, "Código Florestal e a Busca da Perfeição," *Folha de São Paulo*, September 29, 2012.

<sup>142</sup> USAID data, as presented by the *Foreign Assistance Dashboard*, accessed March 2014.

<sup>143</sup> The joint explanatory statement is available from the House Committee on Rules at <http://rules.house.gov/bill/113/hr-3547-sa>.

<sup>144</sup> U.S. Department of State, *Congressional Budget Justification, Department of State, Foreign Operations, and Related Programs, Fiscal Year 2015*, March 4, 2014.

livelihoods in endangered areas outside of the Amazon Rainforest such as the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.<sup>145</sup>

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<sup>145</sup> 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.

## **Appendix. Legislative Initiatives in the 113<sup>th</sup> Congress**

**P.L. 113-79 (H.R. 2642).** Agricultural Act of 2014. Signed into law on February 7, 2014. Includes changes to the U.S. cotton program that could allow for a resolution to a long-standing WTO dispute with Brazil.

**P.L. 113-76 (H.R. 3547).** Consolidated Appropriations Act, 2014. Signed into law on January 17, 2014. The explanatory statement accompanying the act stipulates that \$10.5 million of the funds appropriated should support environmental programs in the Brazilian Amazon. H.Rept. 113-185 (which accompanied H.R. 2855 and is considered part of the explanatory statement) recognizes the work being done under the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality, and states that the legislation includes funds to continue the initiative in FY2014.

**S. 744 (Schumer).** Border Security, Economic Opportunity, and Immigration Modernization Act. Agreed to in the Senate on June 27, 2013. Includes a provision that would require U.S. consular missions to explore options for expanding visa processing capacity in Brazil.

**H.R. 1644 (Kind).** Introduced April 18, 2013; referred to the House Committee on Agriculture. Among other provisions, would prohibit the Secretary of Agriculture from making payments to the Brazilian Cotton Institute. The payments are part of a temporary agreement between the United States and Brazil regarding the WTO cotton dispute.

**H.R. 571 (T. Ryan).** Karl Hoerig Foreign Aid Suspension Act. Introduced February 6, 2013; referred to the House Committee on Foreign Affairs. Would suspend U.S. assistance to Brazil until it amends its constitution to allow the extradition of Brazilian nationals.

**H.R. 572 (T. Ryan).** End Immunity for Brazilian Criminals Act. Introduced February 6, 2013; referred to the House Committee on the Judiciary. Would suspend the issuance of visas to Brazilians until Brazil amends its constitution to allow the extradition of Brazilian nationals.

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