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

**Peter J. Meyer**

Analyst in Latin American Affairs

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## Summary

The United States enjoys cooperative relations with Brazil, which is the seventh-largest economy in the world and is recognized by the Obama Administration as an emerging center of international 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 were particularly strained following revelations in 2013 of alleged National Security Agency (NSA) activities inside Brazil, but cooperation has improved in recent months. Ongoing areas of engagement include trade, energy, security, racial equality, and the environment.

### Political and Economic Situation

After narrowly winning a presidential runoff election in October 2014, Dilma Rousseff of the center-left Workers Party was inaugurated to a second four-year term on January 1, 2015. She faces significant economic and political challenges as she begins her new term. Economic conditions in Brazil have deteriorated significantly since 2011, with growth stalling and inflation rising. Rousseff is now in the difficult position of trying to keep her campaign promises to protect social welfare programs and maintain low unemployment while simultaneously implementing austerity measures that many economists think are necessary to ultimately boost growth. In order to advance her policy agenda, Rousseff will need to cobble together a governing majority in the extremely fragmented Brazilian Congress. This task could become more difficult as an investigation into corruption at the state-owned oil company, Petrobras, begins to focus on politicians that benefited from the corruption scheme.

### Congressional Action

The 113<sup>th</sup> Congress expressed interest in several aspects of U.S.-Brazil relations. 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), signed into law in February 2014, Congress approved modifications to the U.S. cotton program that appear to have helped resolve a long-running trade dispute with Brazil. In December 2014, Congress approved the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235), which appropriated \$10.5 million for environmental programs in the Brazilian Amazon and provided funding to continue the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality.

Among other issues, the 114<sup>th</sup> Congress is likely to consider appropriations to continue U.S. aid programs in Brazil and legislation to renew the U.S. Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain products imported from Brazil and other designated developing countries. The 114<sup>th</sup> Congress also may revisit pending reforms to the International Monetary Fund (IMF) that would provide greater voting power to Brazil and other emerging economies.

## Contents

Political and Economic Situation.....	1
Background.....	1
Cardoso Administration (1995-2002).....	3
Lula Administration (2003-2010).....	3
Rousseff Administration (2011-Present) .....	5
Economic Challenges.....	6
Political Challenges.....	7
U.S.-Brazil Relations.....	8
U.S. Foreign Assistance and Trilateral Development Initiatives.....	10
Commercial Relations .....	11
Bilateral Trade and Investment .....	12
Cotton Dispute .....	14
Energy Ties.....	15
Biofuels .....	15
Oil.....	16
Security Cooperation.....	18
Counternarcotics.....	18
Counterterrorism .....	19
Defense.....	20
Promotion of Racial Equality .....	21
Amazon Conservation .....	23

## Figures

Figure 1. Map of Brazil.....	2
Figure 2. U.S. Trade with Brazil: 2004-2013.....	13
Figure 3. U.S. Oil Trade with Brazil: 2004-2013 .....	18
Figure 4. Deforestation in the Brazilian Amazon: 2004-2014 .....	24

## Tables

Table 1. U.S. Assistance to Brazil: FY2010-FY2015 .....	10
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## Appendixes

Appendix. Legislative Initiatives in the 113 <sup>th</sup> Congress.....	26
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## Contacts

Author Contact Information.....	26
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## Political and Economic Situation

President Dilma Rousseff of the center-left Workers Party was inaugurated to a second four-year term on January 1, 2015. She spent much of her first term in office dealing with deteriorating economic conditions. Mass demonstrations shook Brazil in June 2013, with citizens taking to the streets to denounce corruption and call for better quality public services. The political opposition tried to take advantage of this popular discontent during national elections held in October 2014, but Rousseff rallied to narrowly win a second round runoff. During her second term, Rousseff will seek to protect social welfare programs and maintain low unemployment while implementing economic austerity measures designed to boost long-term growth. In order to advance her agenda, Rousseff will need to cobble together a governing majority in the fragmented Brazilian Congress and limit the political fallout of a major corruption scandal.

## Background

Brazil occupies almost half of the continent of South America and is the fifth most populous country in the world with 203 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 its 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. According to Brazil's National Truth Commission, at least 434 people were killed or disappeared by the dictatorship.<sup>2</sup> 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, establishes 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. Brazil experienced economic recession and political uncertainty during the first decade after the political

<sup>1</sup> Instituto Brasileiro de Geografia e Estatística (IBGE), *Estimativas da População Residente no Brasil e Unidades da Federação com Data Referência em 1º de Julho de 2014*, August 28, 2014.

<sup>2</sup> Comissão Nacional da Verdade, *Relatório*, Volume 1, December 2014, p.963.

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>3</sup>

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.

<sup>3</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>4</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>5</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.

These policies contributed to stronger growth rates for a few years, but 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 adopted a floating exchange rate and the *real* lost 40% of its value.<sup>6</sup>

Although Cardoso's popularity declined as Brazil struggled with these economic challenges, 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>7</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>4</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 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>5</sup> CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

<sup>6</sup> Ibid; Riordan Roett, "How Reform has Powered Brazil's Rise," *Current History*, February 2010.

<sup>7</sup> The PT was founded as a leftist party, but 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. The scandal ultimately led to the convictions of 25 people—including Lula's former chief of staff—in 2012.<sup>8</sup> Nevertheless, 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>9</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>10</sup> the Brazilian economy contracted by 0.3% in 2009 before rebounding with 7.5% growth in 2010.<sup>11</sup> Moreover, Lula won legislative approval for a new regulatory framework that increased the state's role in the exploitation of Brazil's considerable offshore oil reserves and is designed to ensure that those resources are used to fuel long-term economic and social development.

Although some observers criticized Lula for not doing more to advance certain policy reforms,<sup>12</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>13</sup> Income inequality was also reduced, with the Gini coefficient<sup>14</sup> falling from 0.64 to 0.56 during the same time period.<sup>15</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 13% of the decline was attributable to the *Bolsa Familia* program.<sup>16</sup>

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<sup>8</sup> "Brazil Politics: Supreme Court Gives Tough Sentences in 'Mensalão' Trial," *Economist Intelligence Unit*, October 26, 2012.

<sup>9</sup> Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

<sup>10</sup> See, for example, International Monetary Fund (IMF), "IMF Executive Board Concludes 2010 Article IV Consultation with Brazil," August 5, 2010.

<sup>11</sup> IMF, *World Economic Outlook Database*, October 7, 2014.

<sup>12</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>13</sup> U.N. Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 2013*, December 2013, p.65, <http://www.eclac.cl/publicaciones/xml/5/51945/AnuarioEstadistico2013.pdf>.

<sup>14</sup> The Gini coefficient is a value between zero and one, where zero represents complete equality and one represents complete inequality.

<sup>15</sup> ECLAC, December 2013, op. cit., p.70.

<sup>16</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:** 202.8 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 (2014 est.)

**GDP per Capita:** \$11,067 (2014 est.)

**Top Exports:** iron ore, soy beans, oil, meat, and machinery (2014)

**Life Expectancy at Birth:** 74 years (2012)

**Infant Mortality Rate:** 12 per 1,000 live births (2013)

**Adult Literacy Rate:** 91.3% (2012)

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

**Extreme Poverty Rate:** 5.4% (2012)

**Sources:** Area, population, 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; life expectancy and infant mortality statistics from the World Bank; literacy and poverty rates from the U.N. Economic Commission for Latin America and the Caribbean (ECLAC).

## Rousseff Administration (2011-Present)

President Dilma Rousseff of the center-left PT was originally elected in 2010 after promising to maintain the popular policies of President Lula, during whose administration the Brazilian economy expanded by an average of 4% per year, poverty and inequality were reduced significantly, and nearly 40 million Brazilians joined the middle class.<sup>17</sup> Economic conditions deteriorated during Rousseff's first term as the Brazilian economy slowed and inflation increased. Economists estimate that the Brazilian economy grew by 0.2% and inflation was close to 6.5% in 2014.<sup>18</sup> While unemployment has remained near record lows (4.8% in November 2014),<sup>19</sup> many Brazilians are frustrated by the stagnation in their living standards. Mass demonstrations took place across the country in June 2013, with more than a million citizens taking to the streets to denounce corruption and call for better quality public services.<sup>20</sup>

The political opposition sought to capitalize on Rousseff's failure to meet citizens' rising expectations by promising a change in direction in the October 2014 presidential election. Two of the opposition candidates—Marina Silva of the center-left Brazilian Socialist Party (*Partido Socialista Brasileiro*, PSB) and Aécio Neves of the centrist PSDB—led Rousseff in the polls at

<sup>17</sup> IMF, *World Economic Outlook Database*, October 7, 2014; Marcelo Cortes Neri, *Os Emergentes dos Emergentes: Reflexões Globais e Ações para a Nova Classe Média Brasileira*, Fundação Getúlio Vargas, Rio de Janeiro, June 27, 2011, p.35.

<sup>18</sup> Raymond Colitt, "Brazil May Add Tax Increase to Budget Cuts, Finance Chief Says," *Bloomberg*, January 9, 2015.

<sup>19</sup> IBGE, "In November, Unemployment was at 4.8%," December 19, 2014.

<sup>20</sup> "Brazil's Stormy June: Not Turkey or Egypt," *Latin American Security & Strategic Review*, June 2013.



key stages of the presidential race. Support for the opposition candidates ebbed, however, as Rousseff and the PT convinced many Brazilians that Silva and Neves would end popular social welfare programs and threaten the socioeconomic gains made in Brazil over the past 12 years. In the end, Rousseff rallied to win a second round runoff with 51.6% of the vote.<sup>21</sup>

President Rousseff was inaugurated to a second four-year term on January 1, 2014. As she begins her second term, she continues to face significant economic and political challenges. On the economic front, Rousseff will seek to keep her campaign promises to protect social welfare programs and maintain low unemployment while implementing the austerity measures that many economists think are necessary to encourage investment and boost growth (see “Economic Challenges”). Politically, Rousseff will try to advance her policy agenda through the extremely fragmented Brazilian Congress while dealing with the fallout of a major corruption scandal (see “Political Challenges”).

## Economic Challenges

President Rousseff will likely spend much of her second term focusing on domestic economic challenges. With a gross domestic product (GDP) of \$2.2 trillion,<sup>22</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>23</sup> which now accounts for a majority of the population.<sup>24</sup> As commodity prices began to fall, however, Brazil’s economic growth slowed.

During her first term, Rousseff sought to offset the weaker international economic situation by stimulating domestic consumption and protecting domestic industry. Her administration implemented a series of short-term tax cuts and provided subsidized credit through state banks. Although these measures appear to have helped keep unemployment near historic lows, they also eroded the country’s primary budget surplus<sup>25</sup> and helped push inflation to the upper edge of the government’s targeted boundary (4.5% with a 2-point tolerance band). To mitigate the increase in inflation, the Rousseff Administration held down fuel and electricity prices, which, in turn, deterred investment in the energy sector. While inflation has remained relatively high, economic growth has yet to recover, averaging 1.6% from 2011-2014.<sup>26</sup>

Further deceleration of the Brazilian economy and the threat of a credit rating downgrade appear to have led President Rousseff to reconsider her economic policies. Following her reelection, she appointed a new economic team that intends to implement a series of austerity measures designed to encourage investment and ultimately boost growth. The new finance minister plans to make the fiscal adjustments necessary to increase Brazil’s primary surplus to 1.2% of GDP in 2015 and at

<sup>21</sup> Tribunal Superior Eleitoral, “Estatísticas Eleitorais 2014,” October 26, 2014.

<sup>22</sup> IMF, *World Economic Outlook Database*, October 7, 2014.

<sup>23</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 \$600-\$2,600 (R\$1,610-6,941) per month, are generally referred to as the “new middle class.”

<sup>24</sup> Neri, June 2011, *op. cit.*, p.35.

<sup>25</sup> The primary balance is equal to government revenues minus expenditures prior to subtracting debt payments.

<sup>26</sup> IMF, *World Economic Outlook Database*, October 7, 2014.

least 2% of GDP in 2016.<sup>27</sup> The Rousseff Administration has already announced a partial budget freeze and restrictions on certain pension and unemployment benefits. Additional measures may include tax increases, restrictions on subsidized credit offered through state banks, and reductions in electricity and fuel subsidies. At the same time, the Brazilian Central Bank has continued to increase the benchmark interest rate, and has announced its intention to bring inflation back down to 4.5% by the end of 2016.<sup>28</sup>

While international investors have praised Rousseff's policy shift, her political base is less supportive. Rousseff, who campaigned against austerity during the election, has insisted that her administration will be able to carry out the economic adjustment while protecting employment and maintaining social welfare programs.<sup>29</sup> Private sector analysts currently estimate that Brazil's economy will grow by 0.4% in 2015, however, as the Brazilian government's tighter fiscal and monetary policies are likely to dampen prospects for short-term growth.<sup>30</sup> In 2013, mass demonstrations were initially sparked by an increase in public transit fares. Brazil could experience renewed social unrest in 2015 if citizens are forced to contend with a weaker labor market and reductions in government subsidies for fuel, electricity, and transportation.

## Political Challenges

President Rousseff also faces considerable political challenges as she begins her second term. Although her nine-party coalition continues to hold majorities in both houses of the Brazilian Congress, it will be difficult to hold the ideologically diverse bloc together. Legislative support for Rousseff's agenda has declined each year since she took office. In 2011, deputies in the governing coalition voted with Rousseff 89% of the time. By 2014, Rousseff could only count on coalition deputies 66% of the time.<sup>31</sup> Thus, while Rousseff has won approval for significant pieces of legislation like the *Marco Civil*—a civil rights framework for the internet that ensures net neutrality, other priorities like political reform have yet to advance.

The Rousseff Administration's austerity measures are likely to further erode her legislative support. Brazilian presidents have traditionally distributed control of ministries and state enterprises to political allies in order to construct governing majorities. Political parties will likely consider these positions less valuable, however, as the ministries and enterprises have their budgets cut. Likewise, efforts to control government expenditures will leave fewer resources to support legislators' priorities. Consequently, the Rousseff Administration will be in a weaker position to negotiate with the parties in her coalition.

Rousseff will also have to manage the fallout of a major corruption scandal. According to Brazilian prosecutors, several construction and engineering firms colluded to systematically drive up the price of bids for contracts with the state-owned oil company, *Petróleo Brasileiro S.A.*

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<sup>27</sup> "Brazil Economy: New Finance Minister Sets Out Medium-Term Fiscal Targets," *Economist Intelligence Unit*, December 2, 2014.

<sup>28</sup> Mario Sergio Lima and Raymond Colitt, "Brazil's Goal is 4.5% Inflation in December 2016, Tombini Says," *Bloomberg*, December 17, 2014.

<sup>29</sup> President Dilma Rousseff, *Discurso da República, Dilma Rousseff, durante Compromisso Constitucional Perante o Congresso Nacional*, January 1, 2015.

<sup>30</sup> Jonathan Wheatley, "Brazil's Fading Economy Sounds a Warning for EM," *Financial Times*, January 12, 2015.

<sup>31</sup> Gustavo Uribe and Paulo Gama, "Apoio a Dilma na Câmara Diminui no Ano da Sua Reeleição," *Folha de São Paulo*, December 26, 2014.

(Petrobras). Some of the funds from the inflated contracts were then funneled to corrupt executives at the construction firms and Petrobras, and to various political parties, including Rousseff's PT. Brazilian authorities have filed charges against at least 91 people since the corruption investigation began in March 2014. Rousseff served as the chairwoman of Petrobras from 2003-2010, but she has not been linked to the corruption scheme.<sup>32</sup>

## 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>33</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>34</sup> State Department officials maintain that the United States and Brazil are "natural partners" with "shared values and increasingly converging goals."<sup>35</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 2014, for example, Brazil opposed international efforts to diplomatically-isolate Russia after it annexed Crimea, and largely refrained from openly criticizing the Venezuelan government's harsh response to political protests.<sup>36</sup> While Brazil did not support the actions of the Russian and Venezuelan governments, its aversion to sanctions and preference for dialogue led it to approach the issues much differently than the United States.

Press reports about alleged National Security Agency (NSA) activities in Brazil led to a frosty period in the bilateral relationship. The reports, which indicated that the NSA had spied on President Rousseff and Brazil's state-owned oil company, 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 led the Brazilian government to

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<sup>32</sup> Rogerio Jelmayer, "Brazil Official Sees Alleged Petrobras Corruption Scheme Reaching \$1.6 Billion; Brazil Construction Companies Allegedly Involved in Petrobras Scheme May Face Fines," *Wall Street Journal*, November 19, 2014; Dom Phillips, "Oil Scandal in Brazil Just Keeps Growing; Optimists See Chance for Change," *Washington Post*, December 22, 2014; Jeb Blount and Anthony Boadle, "Insight-Failure to Stop Petrobras Scandal Could Haunt Brazil's Rousseff," *Reuters*, January 2, 2015.

<sup>33</sup> White House, *National Security Strategy*, May 2010, p. 44.

<sup>34</sup> U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S. Relations with Brazil," Fact Sheet, October 3, 2013.

<sup>35</sup> William J. Burns, Deputy Secretary of State, "Building a Deeper Partnership with Brazil," Remarks in Rio de Janeiro, Brazil, March 1, 2012.

<sup>36</sup> Oliver Stuenkel, *Why Brazil has not Criticized Russia over Crimea*, Norwegian Peacebuilding Resource Centre, Policy Brief, May 2014; "Brazil Defends Quiet Diplomacy towards Venezuela," *Latin News Daily Report*, April 4, 2014.

terminate a \$2 billion contract with Microsoft, and 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").<sup>37</sup> 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>38</sup>

U.S.-Brazil relations have begun to warm again in recent months. In September 2014, the U.S. and Brazilian governments signed a tax information exchange agreement that had been frozen in the aftermath of the NSA revelations. The new agreement meets the requirements set by the Foreign Account Tax Compliance Act (FATCA, P.L. 111-147)<sup>39</sup> and could be a step toward a bilateral treaty to avoid double taxation of businesses.<sup>40</sup> Cooperation continued in October 2014, when the U.S. and Brazilian governments signed a memorandum of understanding designed to resolve a long-running trade dispute over U.S. cotton support programs (see "Cotton Dispute"). During her second term inaugural address, which was attended by Vice President Biden, President Rousseff asserted that "it is of great importance that we improve our relationship with the United States."<sup>41</sup> To that end, she has appointed her former ambassador to the United States as foreign minister and announced her intention to reschedule the postponed state visit.

Despite these advances, there are a few issues that could generate tension in the relationship in 2015. The U.S. Department of Justice and Securities and Exchange Commission (SEC) are reportedly investigating alleged corruption at Brazil's state-owned oil company, Petrobras, and U.S. investors have filed a class action lawsuit against the company. Brazilian officials reportedly are concerned that the investigations could hinder Petrobras operations and impede investment.<sup>42</sup> Brazilian officials have also expressed dismay that the U.S. Congress has not yet ratified reforms to the International Monetary Fund (IMF) that would provide greater voting power to Brazil and other emerging economies; the reforms have been awaiting congressional ratification for more than four years.<sup>43</sup>

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<sup>37</sup> Brazilian Congress, Federal Senate Committee on Foreign Relations and National Defense, *Directions for Brazil-United States Relations*, Testimony of Paulo Sotero, Director of the Brazil Institute of the Woodrow Wilson International Center for Scholars, April 3, 2014.

<sup>38</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.

<sup>39</sup> For more information on FATCA, see CRS Report R43444, *Reporting Foreign Financial Assets Under Titles 26 and 31: FATCA and FBAR*, by Erika K. Lunder and Carol A. Pettit.

<sup>40</sup> Embassy of the United States, "Brazil and the United States Sign Agreement on Exchange of Tax Information," press release, September 23, 2014; "Brazil, U.S. Sign Tax Pact Frozen by Spy Scandal," *Reuters*, September 23, 2014.

<sup>41</sup> President Dilma Rousseff, *Discurso da República, Dilma Rousseff, durante Compromisso Constitucional Perante o Congresso Nacional*, January 1, 2015.

<sup>42</sup> Valdo Cruz, "Investigação dos EUA Preocupa Planalto," *Folha de São Paulo*, November 11, 2014; "Brazil's Petrobras Says Received U.S. SEC Subpoena for Documents," *Reuters*, November 24, 2014; "Petrobras Hit with U.S. Class Action Suit over \$98 Bln in Securities," *Reuters*, December 26, 2014.

<sup>43</sup> Ian Talley, "U.S. Inaction Sows Dissent in Monetary Fund—Representatives of Emerging Economies at the IMF Say They Have Waited Too Long for the Congress to Act," *Wall Street Journal*, April 15, 2014. For more information on the potential reforms, see CRS Report R42844, *IMF Reforms: Issues for Congress*, by Rebecca M. Nelson and Martin (continued...)

## 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 \$18 million in FY2012, \$15.2 million in FY2013, and an estimated \$13.9 million in FY2014 (see **Table 1**). The Obama Administration requested \$3.4 million for Brazil in FY2015, but it is currently unclear how much will be provided through the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235). Although the Administration did not request any funds to continue supporting conservation efforts in Brazil, the act provides \$10.5 million for environmental programs in the Brazilian Amazon (see “Amazon Conservation”). Other funds may be used to train the Brazilian military (see “Security Cooperation”), counter HIV/AIDS, and strengthen export controls.

In addition to supporting aid programs in Brazil, 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>44</sup> The Administration’s FY2015 foreign aid request for Brazil included \$2 million in Development Assistance (DA) to implement jointly funded food security projects in countries such as Haiti, Honduras, and Mozambique.

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

In thousands of U.S. dollars

Account	FY2010	FY2011	FY2012	FY2013	FY2014 (est.)	FY2015 (req.)
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>Total</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>

**Sources:** U.S. Department of State, *Congressional Budget Justifications for Foreign Operations, Fiscal Years 2012, 2013, 2014, and 2015*.

**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.

(...continued)

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<sup>44</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>.

## 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>45</sup> and multilateral negotiations at the World Trade Organization (WTO).<sup>46</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>47</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>48</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 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>49</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>50</sup> They maintain that large-scale agreements like the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)<sup>51</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

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<sup>45</sup> For background information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>46</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>47</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>48</sup> For more information on the Doha Round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

<sup>49</sup> "The World Trade Organization: Unaccustomed Victory," *Economist*, December 14, 2013. For more information, see CRS Report IF10002, *The World Trade Organization at 20*, by Ian F. Fergusson.

<sup>50</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; 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>51</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 (T-TIP) Negotiations*, by Shayerah Ilias Akhtar and Vivian C. Jones.

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 some members of the Rousseff Administration agree that Brazil should accelerate its trade agreement negotiations, others maintain that opening up Brazil to more foreign trade would decimate Brazilian industry.<sup>52</sup> The Brazilian government has placed renewed emphasis on concluding an agreement between Mercosur and the EU, but further policy shifts will likely depend on how the TPP and TTIP negotiations advance and economic conditions in Brazil. In 2014, Brazil reportedly posted its first trade deficit since 2000.<sup>53</sup>

## Bilateral Trade and Investment

Despite 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>54</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>55</sup>

U.S.-Brazil services trade has grown even more quickly than merchandise trade, increasing by 406% between 2004 and 2013. In 2013, total trade in services amounted to \$34 billion. The United States continued to run a substantial trade surplus, valued at \$19.3 billion, as U.S. services exports to Brazil totaled \$26.6 billion and U.S. services imports from Brazil totaled \$7.3 billion. Travel, transport, telecommunications, and intellectual property charges were the top categories of U.S. services exports to Brazil while business services was the top category of U.S. imports from Brazil.<sup>56</sup>

Brazil has traditionally benefited from the Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain products imported from designated developing countries. Legal authorization for the GSP program expired on July 31,

<sup>52</sup> "Brasil Debe Acelerar Pactos Internacionales de Comercio: Jefe de Gabinete," *Reuters*, November 19, 2014; "Brazil Trade Minister Says Opening Up Trade Would be 'Disaster' – Paper," *Reuters*, September 27, 2014.

<sup>53</sup> Rogerio Jelmayer, "Brazil Posts First Trade Deficit Since 2000," *Wall Street Journal*, January 5, 2015.

<sup>54</sup> U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, March 2014.

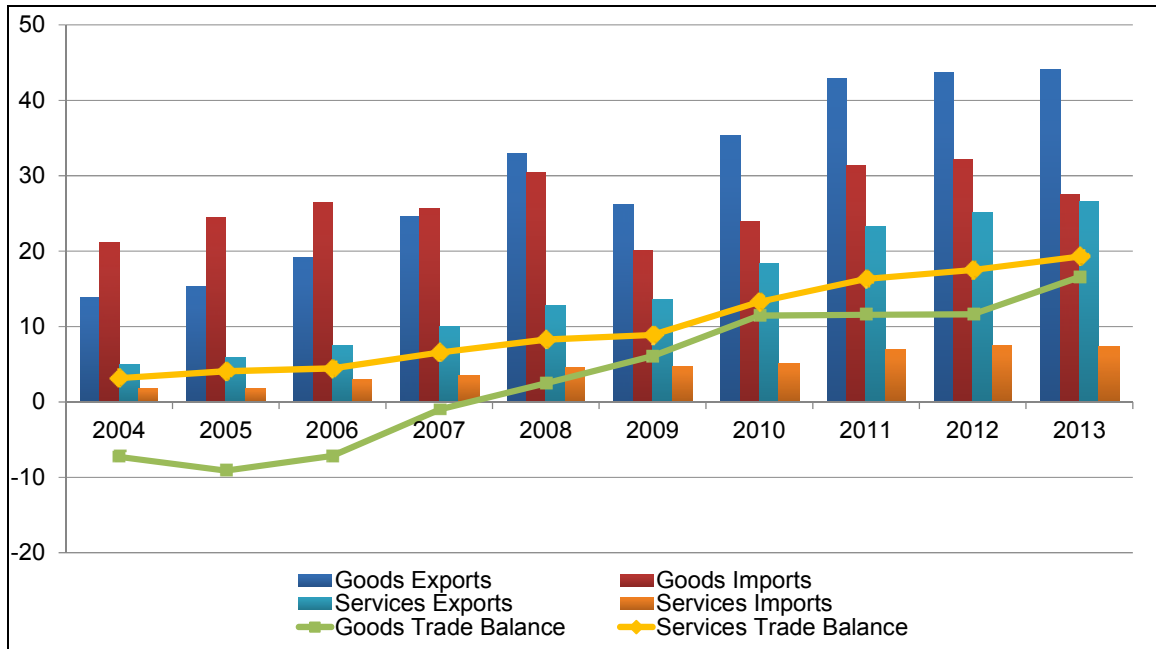
<sup>55</sup> U.S. Department of Commerce and República Federativa do Brasil, Secretaria de Comércio Exterior (SECEX) data, as made available by *Global Trade Atlas*, March 2014.

<sup>56</sup> U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Trade in Services, by Country or Affiliation and by Type of Service," November 2014.

2013, and Congress has yet to renew it.<sup>57</sup> In 2012, the last full year that the GSP program was in effect, Brazil was the third-largest beneficiary. 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>58</sup> Some observers have questioned the inclusion of Brazil and other upper-middle-income countries in the GSP program; the European Union removed such countries from its GSP program as of 2014.<sup>59</sup>

**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:** 2014 data are not yet available.

Foreign direct investment (FDI) between the United States and Brazil currently flows mostly in one direction, towards Brazil. As of 2013, the accumulated stock of U.S. FDI in Brazil was \$78.1 billion, with significant investments in manufacturing and finance, among other sectors. In 2013, the stock of Brazilian FDI in the United States totaled \$1.1 billion.<sup>60</sup>

<sup>57</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>58</sup> U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, March 2014.

<sup>59</sup> European Commission, "New GSP as of 2014," December 18, 2013.

<sup>60</sup> U.S. Department of Commerce, Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data," November 2014.



## Cotton Dispute<sup>61</sup>

In October 2014, Brazil and the United States appeared to resolve a more than decade-long 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 a reauthorization of the farm bill.<sup>62</sup>

The U.S. government stopped complying with the temporary agreement in 2013, 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 2013.<sup>63</sup> The suspension of payments led the Brazilian government to once again explore retaliatory measures.<sup>64</sup>

In February 2014, President Obama signed into law a new farm bill (P.L. 113-79). According to the conference report accompanying the act (H.Rept. 113-333), the legislation included 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) asserted that the farm bill contains elements that will continue to distort the international cotton market, and 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>65</sup>

Rather than requesting a new WTO compliance panel, Brazil reached a settlement with the United States. According to the memorandum of understanding signed in October 2014, the United States

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<sup>61</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>62</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>63</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>64</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*.

<sup>65</sup> CAMEX, "CAMEX Autoriza Abertura de Painel na OMC sobre Legislação Agrícola Norte-Americana," February 19, 2014.

agreed to make a final one-time payment of \$300 million to the Brazil Cotton Institute and make some additional changes to its export credit guarantee program. In exchange, Brazil agreed not to challenge U.S. cotton support programs at the WTO prior to September 30, 2018.<sup>66</sup>

## Energy Ties

Energy has been another important area of U.S.-Brazilian cooperation in recent years. Brazil is the world's second-largest producer of ethanol (after the United States). It has also discovered large offshore oil deposits that have the potential to turn the country into a major oil and gas producer. To facilitate greater cooperation in the development of safe, secure, and affordable energy, President Obama and President Rousseff launched a Strategic Energy Dialogue in 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 an 18-27.5% ethanol blend.<sup>67</sup> The Brazilian ethanol sector has struggled in recent years, however, due to poor harvests and lower demand resulting from the Brazilian government's policy of capping gasoline prices to hold down inflation.<sup>68</sup> Consequently, the ethanol industry has seen lower levels of investment and production. In 2013, Brazil produced 479,000 barrels per day of ethanol, which was an 18% increase compared to 2012, but slightly less than it produced in 2010.<sup>69</sup> The Brazilian government has sought to provide some relief to the ethanol industry by raising gasoline prices, increasing the ethanol blend requirement, and reducing taxes on ethanol. Nevertheless, some analysts maintain that the lack of transparency and certainty regarding how gasoline prices are determined are likely to continue to discourage investment in the industry.<sup>70</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>71</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,

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<sup>66</sup> The Memorandum of Understanding Related to the Cotton Dispute (WT/DS267) is available at <http://www.ustr.gov/sites/default/files/20141001201606893.pdf>.

<sup>67</sup> "Brazil's President Signs Higher Ethanol Blend into Law," *Reuters*, September 25, 2014.

<sup>68</sup> "Brazil Offers Tax Breaks to Ethanol Exporters," *EFE News Service*, September 10, 2014.

<sup>69</sup> Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), *Oil, Natural Gas and Biofuels Statistical Yearbook 2014*, 2014, p.62.

<sup>70</sup> Claire Casey, "Is Brazil the Energy Power of the Future (and Always Will Be)?" *Americas Quarterly*, (Summer 2013).

<sup>71</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>.

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>72</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>73</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>74</sup> Total bilateral ethanol trade has actually declined since then, 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>75</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 and an important source of energy for the United States.<sup>76</sup> 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.<sup>77</sup> At the end of 2013, Brazil’s proven oil reserves stood at 15.6 billion barrels, accounting for slightly less than 1% of global reserves.<sup>78</sup> More than 94% of Brazil’s proven reserves are located offshore.<sup>79</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>80</sup> The new framework increased the role of the Brazilian government and is designed to ensure that the

<sup>72</sup> White House, Office of the Press Secretary, “Fact Sheet: The U.S.-Brazil Strategic Energy Dialogue,” April 9, 2012.

<sup>73</sup> Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 94, de 8 de Dezembro de 2011*.

<sup>74</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>75</sup> U.S. Energy Information Administration (EIA), “Petroleum & Other Liquids: Data,” March 2014.

<sup>76</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.

<sup>77</sup> EIA, *Country Analysis Briefs: Brazil*, December 29, 2014, <http://www.eia.gov/countries/analysisbriefs/brazil/brazil.pdf>.

<sup>78</sup> BP, *BP Statistical Review of World Energy*, August 2014, p. 6, <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf>.

<sup>79</sup> ANP, 2014, op. cit., p. 31.

<sup>80</sup> Langevin, 2012, op. cit.

country's oil reserves are used to fuel long-term economic and social development. Among other provisions, the framework establishes state-owned 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>81</sup> The Brazilian Congress continued to debate a new law regarding the distribution of oil royalties until March 2013.

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 has actually declined by nearly 4% since 2011; in 2013, Brazilian oil production totaled 2.1 million barrels per day.<sup>82</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>83</sup> The Brazilian government declared the auction a success, but some energy analysts maintain that the country will need to modify the new regulatory framework prior to auctioning other concessions in order to attract the investment necessary to develop its reserves and accelerate production.<sup>84</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>85</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>86</sup>

<sup>81</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>82</sup> BP, August 2014, op. cit., p.8.

<sup>83</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.

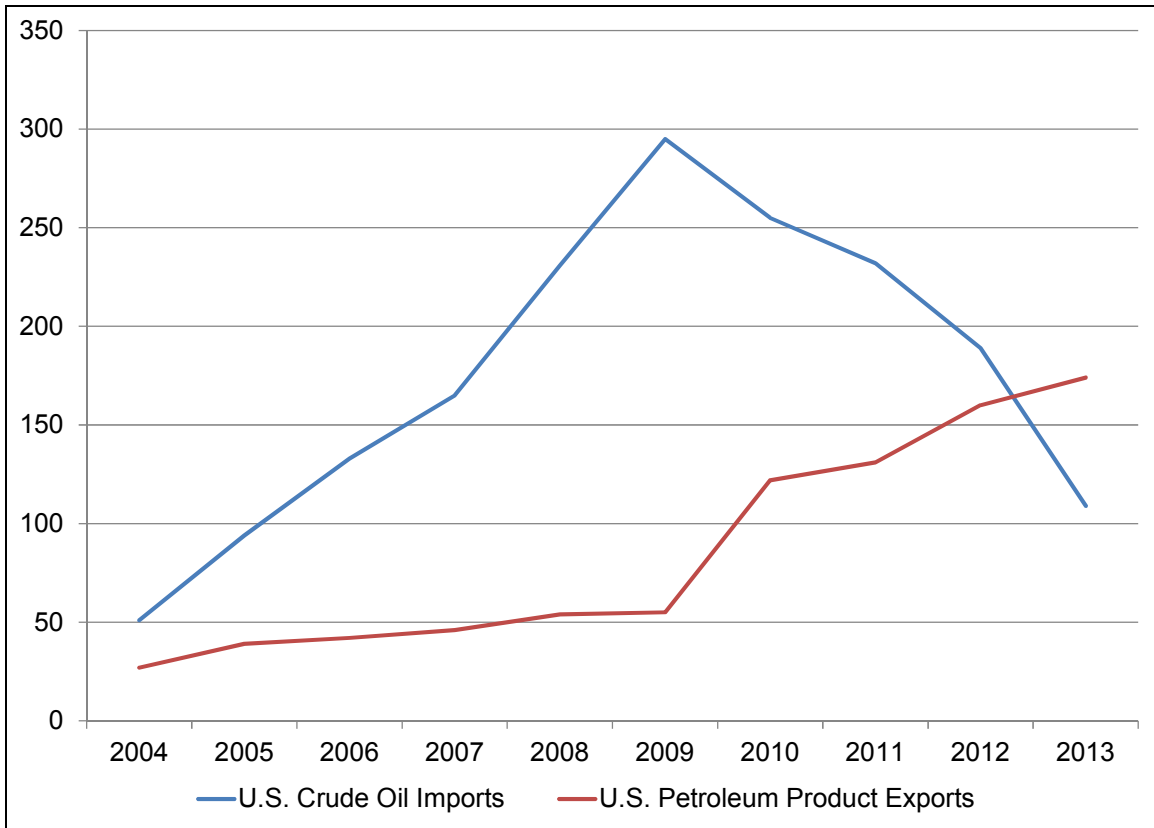
<sup>84</sup> Matthew Cowley and Paulo Trevisani, "Brazil Seen Having to Alter Oil Rules," *Wall Street Journal*, October 22, 2013.

<sup>85</sup> EIA, "Petroleum & Other Liquids: Data," March 2014.

<sup>86</sup> Jeb Blount, "Analysis: Petrobras Fuel Woes Make Brazil Dependent on U.S., India," *Reuters*, January 22, 2014.

**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.

**Notes:** 2014 data are not yet available.

## 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.

### Counternarcotics

Brazil is not a major drug-producing country, but 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>87</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*

<sup>87</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>.

*Comando da Capital*, PCC), have reportedly begun to operate transnationally, eliminating intermediaries in order to control cross-border trafficking.<sup>88</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 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>89</sup> In 2013, Brazilian authorities reportedly seized 35.7 metric tons of cocaine and 220.8 metric tons of marijuana.<sup>90</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 nongovernmental organizations that work with addicts and their families in 2013.<sup>91</sup> U.S. counternarcotics assistance to Brazil amounted to \$3.5 million in FY2012 and \$1.9 million in FY2013.<sup>92</sup> The Obama Administration did not request any counternarcotics assistance for Brazil in FY2014 or FY2015.<sup>93</sup>

## Counterterrorism<sup>94</sup>

The tri-border area 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 in the Western Hemisphere. Nevertheless, the United States remains concerned that proceeds from legal and illegal goods flowing through the tri-border area could potentially be diverted to support terrorist groups.<sup>95</sup> For example, in 2010, the U.S. Treasury Department sanctioned Hezbollah's

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<sup>88</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>89</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>90</sup> *INCSR*, 2014, op. cit.

<sup>91</sup> *Ibid.*

<sup>92</sup> U.S. Department of State, USAID, and U.S. Department of Defense data as presented by the *Foreign Assistance Dashboard*, March 2014.

<sup>93</sup> U.S. State Department, *Congressional Budget Justification, Department of State, Foreign Operations, and Related Programs, Fiscal Year 2015*, March 4, 2014.

<sup>94</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>95</sup> U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2013*, April 2014, <http://www.state.gov/j/ct/rls/crt/2013/224825.htm>.

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 tri-border area following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly had overseen Hezbollah's counterintelligence activity in the tri-border area and had worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.<sup>96</sup>

The U.S. government has worked with Brazil to address concerns about the tri-border area and strengthen the country's counterterrorism capabilities. The countries of the tri-border area 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 provided anti-terrorism assistance designed to strengthen Brazil's capacity to secure its borders and conduct terrorism-related investigations. U.S. authorities have also supported the Brazilian government's efforts to prevent terrorist attacks at the 2014 World Cup and 2016 Summer Olympic Games.<sup>97</sup>

The State Department's *Country Reports on Terrorism* for 2013 recognized the Brazilian government's continued support for counterterrorism-related activities, including investigating potential terrorism financing and document forgery networks. Despite this cooperation, 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, several pieces of antiterrorism legislation are pending in the Brazilian Congress.<sup>98</sup>

## 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>99</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>100</sup> Both

<sup>96</sup> U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," press release, December 9, 2010.

<sup>97</sup> *Country Reports on Terrorism 2013*, April 2014, op. cit.

<sup>98</sup> Ibid.

<sup>99</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>100</sup> U.S. Department of Defense, Office of the Secretary of Defense, "Fact Sheet: U.S.-Brazil Defense Cooperation," (continued...)

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 2012.

As previously mentioned, 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 \$638,000 in FY2012, \$572,000 in FY2013, and an estimated \$625,000 in FY2014. The Administration requested \$625,000 in IMET assistance for Brazil in FY2015.<sup>101</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 is providing 20 *A-29 Super Tucano* aircraft to the Afghan military for advanced flight training, surveillance, close air support, and air interdiction missions.<sup>102</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>103</sup> The Brazilian Air Force announced its preference for the Gripen in 2010, reportedly citing its lower purchase and maintenance costs and the ability to transfer more technology to Brazil.<sup>104</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>105</sup> the NSA allegations may have been enough to push Boeing out of the running.

## Promotion of Racial Equality

While Brazilians have experienced significant improvements in economic and social conditions over the past decade, racial disparities persist. Afro-Brazilians, who comprise about half of the Brazilian population,<sup>106</sup> account for less than 25% of Brazilians that have completed post-

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March 14, 2011.

<sup>101</sup> U.S. Department of State, *Congressional Budget Justifications for Foreign Operations, Fiscal Years 2014 and 2015*, available at <http://www.state.gov/f/releases/iab/index.htm>.

<sup>102</sup> "Brazilian Firm to Provide Aircraft to Afghan Air Force," *American Forces Press Service*, February 27, 2013.

<sup>103</sup> Alfonso Soto and Brian Winter, "Saab Wins Brazil Jet Deal after NSA Spying Sour Boeing Bid," *Reuters*, December 18, 2013.

<sup>104</sup> Raymond Colitt, "Brazil Air Force Prefers Swedish Jets – Report," *Reuters*, January 5, 2010.

<sup>105</sup> In 2006, for example, the United States prevented Brazil from selling 24 *Super Tucano* light attack planes to Venezuela.

<sup>106</sup> According to Brazil's 2010 census, 43.1% of Brazilians self-identify as *pardo* ("brown") and 7.6% self-identify as (continued...)



secondary degrees and 17% of Brazilians that have completed graduate degrees.<sup>107</sup> In 2010, the median income of Afro-Brazilians was 64% of the median income of white Brazilians.<sup>108</sup> Even after controlling for education, occupation, and location, white Brazilians reportedly receive higher wages than Afro-Brazilians.<sup>109</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>110</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>111</sup> Most recently, President Rousseff enacted a law in June 2014 that reserves 20% of jobs in the Brazilian executive branch and state-owned enterprises for Afro-Brazilians.<sup>112</sup> Although race-based affirmative action policies have been rather controversial among some sectors of the Brazilian population,<sup>113</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>114</sup> Current areas of focus include expanding access to education for students of African descent, eliminating racial health disparities, mitigating environmental

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*preto* ("black"). IBGE, *Censo Demográfico 2010*, November 2011.

<sup>107</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>108</sup> IBGE, 2011, op. cit.

<sup>109</sup> Dias & Goes, 2013, op. cit., p.21.

<sup>110</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>111</sup> Simon Romero, "Brazil Enacts Affirmative Action Law for Universities," *New York Times*, August 30, 2012; "Rousseff Decrees Affirmative Action," *Latin News Daily Report*, October 16, 2012.

<sup>112</sup> "Brazil Enacts 20 Percent Quotas for Blacks in Federal Jobs," *Agence France Presse*, June 9, 2014.

<sup>113</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>114</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.

impacts in communities of African descent, addressing challenges in criminal justice systems, and guaranteeing equal access to economic opportunities.<sup>115</sup> According to H.Rept. 113-499, which is considered part of the explanatory statement, the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) includes resources to continue and strengthen the initiative in FY2015.

## 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>116</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>117</sup>

About 69% of the Amazon Basin, which is shared by seven nations,<sup>118</sup> lies within Brazil.<sup>119</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 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>120</sup>

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>121</sup> the Brazilian government has implemented a series of policies designed to slow deforestation. In 2002, for example, it created the Amazon Protected Areas Program, which now includes some 600,000 square kilometers of forest.<sup>122</sup> 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>123</sup> Brazil appears to be on track to achieve its goal, as annual deforestation has fallen from 27,772 square

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<sup>115</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>116</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>117</sup> Eric A. Davidson et al., "The Amazon Basin in Transition," *Nature*, vol. 481 (January 19, 2012), p. 321.

<sup>118</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>119</sup> UNEP, 2004, op. cit.

<sup>120</sup> Davidson et al., 2012, op. cit., p.321.

<sup>121</sup> See, for example, Fabiana Frayssinet, "Climate Change-Brazil: Farmers 'Have Good Reason to Worry'," *Inter Press Service*, September 21, 2011; "Amazonian Deforestation May Cut Rainfall by a Fifth: Study," *Agence France Presse*, September 5, 2012; and "Amazon Rainforest Begins to Fail to Regulate Climate – Scientist," *BBC Monitoring Americas*, November 5, 2014.

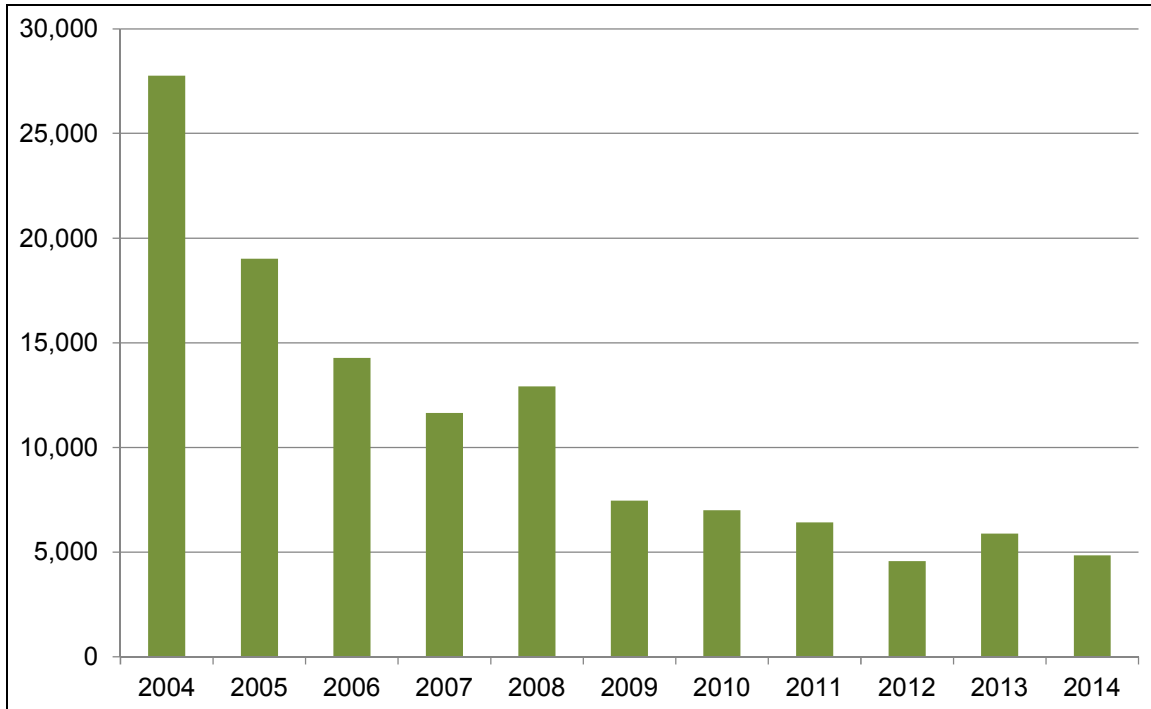
<sup>122</sup> "Brazil to Spend \$216 Mn on Protected Areas in Amazon," *EFE News Service*, May 22, 2014.

<sup>123</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.

kilometers in 2004 to 4,848 square kilometers in 2014 (see **Figure 4**).<sup>124</sup> According to a 2012 study, about half of the reduction in deforestation in the Brazilian Amazon between 2005 and 2009 was attributable to the Brazilian government’s conservation policies, though lower commodity prices also contributed to the decline.<sup>125</sup>

**Figure 4. Deforestation in the Brazilian Amazon: 2004-2014**

In square kilometers



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

Despite recent progress, Brazil’s deforestation rate increased by nearly 29% between 2012 and 2013. Although it fell by about 18% between 2013 and 2014, the deforestation rate remains higher than it was in 2012. Some analysts have attributed the increase in deforestation to government policy changes. In 2011, President Rousseff signed a law transferring responsibility for environmental oversight of nonfederal lands from Brazil’s federal environmental protection agency to local officials. The federal government maintains that local officials are better placed to manage such resources, but critics argue that local authorities lack the necessary finances and are more susceptible to intimidation and corruption.<sup>126</sup> In 2012, the Brazilian Congress approved a major overhaul of the forest code—a law that requires rural landowners to set aside 20%-80% of their land for natural vegetation. President Rousseff vetoed some of the most controversial provisions of the legislation, but the final version relaxed conservation requirements for

<sup>124</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*, December 2014.

<sup>125</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>126</sup> Paulo Prada, “Special Report: Brazil Backslides on Protecting the Amazon,” *Reuters*, August 3, 2012.

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>127</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 private property in the world.<sup>128</sup> Rousseff's decision to appoint two climate change skeptics who have clashed with environmentalists to her cabinet has raised further questions about her Administration's commitment to conservation.<sup>129</sup>

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 \$10.8 million in FY2012, \$9.6 million in FY2013, and an estimated \$10.5 million in FY2014.<sup>130</sup> Although the Obama Administration did not request any funds for conservation efforts in Brazil in FY2015, the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) provides \$10.5 million for environmental programs in the Brazilian Amazon.

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 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 livelihoods in endangered areas outside of the Amazon Rainforest such as the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.<sup>131</sup>

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<sup>127</sup> "Brazil President Makes Final Changes to Forestry Law," *Agence France Presse*, October 18, 2012.

<sup>128</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>129</sup> Hector Velasco, "Rise of Brazil's Ranching Queen Sparks Green Protests," *Agence France Presse*, December 24, 2014; Simon Romero, "Climatologists Balk as Brazil Picks Skeptic for Key Post," *New York Times*, January 6, 2015.

<sup>130</sup> USAID data, as presented by the *Foreign Assistance Dashboard*, November 2014.

<sup>131</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. 113-235 (H.R. 83).** Consolidated and Further Continuing Appropriations Act, 2015. Signed into law on December 16, 2014. The explanatory statement accompanying the act designated \$10.5 million for environmental programs in the Brazilian Amazon. H.Rept. 113-499, which is considered part of the explanatory statement, recognized the work being done under the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality, and stated that the act includes resources to continue and strengthen the initiative in FY2015.

**P.L. 113-79 (H.R. 2642).** Agricultural Act of 2014. Signed into law on February 7, 2014. Included changes to the U.S. cotton program designed to facilitate the resolution of 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 stipulated that \$10.5 million of the funds appropriated should support environmental programs in the Brazilian Amazon. H.Rept. 113-185, which is considered part of the explanatory statement, recognized the work being done under the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality, and stated that the legislation included 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. Included a provision that would have required 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 have prohibited the Secretary of Agriculture from making payments to the Brazilian Cotton Institute. The payments were part of an 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 have suspended 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 have suspended the issuance of visas to Brazilians until Brazil amends its constitution to allow the extradition of Brazilian nationals.

### **Author Contact Information**

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