



# Brazil-U.S. Relations

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## Summary

On January 1, 2007, Luis Inácio “Lula” da Silva, of the leftist Workers’ Party (PT), was inaugurated for a second four-year term as President of Brazil. Lula was re-elected in the second round of voting with fairly broad popular support. His immediate tasks were to boost Brazil’s lagging economic growth and address the issues of crime, violence, and poverty. Despite President Lula’s personal popularity, many predicted that inter-party rivalries within his governing coalition would make it hard for him to push his agenda through Brazil’s fractured legislature.

President Lula enjoys high approval ratings (70% in December 2008) and is benefitting from a relatively strong economy (GDP growth was expected to exceed 5% in 2008), despite the onset of the international financial crisis. Ongoing corruption investigations involving President Lula’s PT have not diminished the strength of his second term in office. Some have criticized President Lula, however, for not using his significant political capital to gain legislative approval for a more robust political and economic reform agenda.

During the first Lula term, Brazil’s relations with the United States were generally positive, although President Lula prioritized strengthening relations with neighboring countries and expanding ties with nontraditional partners, including India and China. Brazil-U.S. cooperation has increased during President Lula’s second term, particularly on energy issues. Two presidential visits in March 2007 culminated in the signing of the U.S.-Brazil Memorandum of Understanding (MOU) to promote greater ethanol production and use throughout Latin America. In November 2008, Brazil and the United States announced plans to expand their biofuels cooperation to assist five additional countries in Africa, Central America, and the Caribbean in developing their domestic biofuels industries. Some predict that Brazil could eventually become a major oil supplier to the United States given its recent deep-water petroleum discoveries.

The 110<sup>th</sup> Congress remained interested in Brazil, particularly its role as an ethanol producer, and the 111<sup>th</sup> Congress is expected to maintain similar interest. On October 9, 2007, the House passed H.Res. 651 (Engel), recognizing the expanding relationship that exists between the United States and Brazil and the importance of U.S.-Brazil biofuels cooperation. On September 9, 2008, the House passed H.Res. 1254 (Engel), supporting the new U.S.-Brazil Joint Action Plan Against Racial Discrimination. On October 16, 2008, the President signed H.R. 7222/P.L. 110-436 (Rangel) into law, which extends current trade preferences for Brazil and other countries under the Generalized System of Preferences (GSP) through December 31, 2009. A number of other bills relating to Brazilian ethanol were also introduced during the 110<sup>th</sup> Congress. On September 23, 2008, S. 1007 (Lugar)—which would deepen Brazil-U.S. energy cooperation and provide \$60 million to support the U.S.-Brazil MOU on biofuels—was reported out of the Senate Committee on Foreign Relations. Two bills were introduced that would eliminate tariffs on imported ethanol: H.R. 6183 (Brown-Waite) and H.R. 6137 (Shadegg). Another bill was introduced, S. 3080 (Feinstein), that would require the President to periodically adjust the ethanol tariff so that it remains the same as the blender’s tax credit.

This report, which will be updated periodically, analyzes Brazil’s political, economic, and social conditions, and how those conditions affect its role in the region and its relationship with the United States.

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## Background

Brazil is considered a significant political and economic power in Latin America, and an emerging global leader. A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity, including the vast Amazon rainforest, and significant natural resources. Brazil is the fifth most populous country in the world. Brazil's 191 million citizens are primarily of European, African, or mixed African and European descent.<sup>1</sup> With an estimated gross domestic product (GDP) of \$1.8 trillion in 2007, Brazil's diversified economy is the tenth largest in the world, the largest in Latin America, and one of the largest in the developing world, but per capita gross national income is only \$5,910, and the country has an unequal income distribution.<sup>2</sup> Brazil has long held potential to become a world power, but its rise to prominence has been curtailed by political setbacks, including twenty-one years of military rule (1964-1985), social problems, and uneven economic growth.

Between World War II and 1990, both democratic and military governments sought to expand Brazil's influence in the world by pursuing a state-led industrial policy and an independent foreign policy. Since the 1990s, Brazilian foreign policy has focused on strengthening ties with other South American countries, engaging in multilateral diplomacy, and acting at times as a countervailing force to U.S. influence in Latin America. In recent years, for example, Brazil led other South American countries in blocking the creation of a U.S.-backed Free Trade Area of the Americas (FTAA). Under President Luis Inácio "Lula" da Silva, Brazil has aimed, with varying degrees of success, to raise its global profile. Brazil has become a leader of developing countries in the Doha round of the World Trade Organization (WTO) talks and has sought to increase trade ties with other emerging economies, such as China, India and South Africa. Additionally, Brazil is commanding a multinational United Nations Stabilization Mission in Haiti. Brazil has also become a global leader in biofuels production and may become an increasingly important petroleum exporter.

Currently, relations between the United States and Brazil may be characterized as warm and friendly. The United States has increasingly regarded Brazil as a significant regional power, especially in its role as a stabilizing force in Latin America. Despite periodic disagreements on trade and political issues, Brazil and the United States have worked closely on a wide range of bilateral and regional issues. U.S. officials have responded positively to Brazil's recent efforts to reassert its regional leadership, which has been challenged by the rise of oil-rich Hugo Chávez in Venezuela.<sup>3</sup> Early in 2007, two high-level meetings between Presidents Bush and Lula strengthened U.S.-Brazilian relations. The latter meeting culminated in the March 2007 signing of a U.S.-Brazil Memorandum of Understanding (MOU) to promote bio-fuels development in the Western Hemisphere.<sup>4</sup> The initiative was expanded in November 2008 to include additional

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

<sup>2</sup> "Brazil at a Glance," World Bank, October 1, 2007.

<sup>3</sup> Monte Reel, "U.S. Seeks Partnership with Brazil on Ethanol; Countering Oil-rich Venezuela is Part of Aim," *Washington Post*, February 8, 2007.

<sup>4</sup> For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

countries in Africa, Central America, and the Caribbean (See “Ethanol and Other Biofuels” section below).<sup>5</sup>

## Political Situation

The Brazilian political system has several unique characteristics that distinguish it from other countries in Latin America. The country’s federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil’s sizable territory. Even during the centralizing government of Getúlio Vargas and the Estado Novo, or New State (1937-1945), landowning remained the source of local power in Brazil and states retained considerable autonomy. Brazil’s military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. Brazil was also one of the last countries in the region to abandon state-led economic policies in favor of market reforms. Significant pro-market reforms did not occur until the government of Fernando Henrique Cardoso (1994-2002).<sup>6</sup>

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

President Cardoso sought a second presidential term after a constitutional reform was passed in 1997 to allow for reelection, and he defeated Lula da Silva in the first round of voting in October 1998 with 53% of the vote. President Cardoso’s popularity fell towards the end of his second term, however, as Brazil faced a series of financial crises. Most analysts credit Cardoso with restoring macroeconomic stability to Brazil’s economy and solidifying its role as leader of the

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<sup>5</sup> “Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development,” U.S. Department of State, Office of the Spokesman, November 20, 2008.

<sup>6</sup> For a historical overview of Brazil’s political development, see Bolivar Lamounier, “Brazil: Inequality Against Democracy,” in Larry Diamond, Jonathan Hughes, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Latin America*, Boulder, CO: Lynne Reiner, 1999.

Southern Common Market (Mercosur)<sup>7</sup>, but fault him for failing to implement more aggressive political and social reforms.<sup>8</sup>

## The First Lula Administration

In 2002, Lula da Silva ran in his fourth campaign for the presidency of Brazil. Unlike in his previous failed campaigns, he moderated his leftist rhetoric and, while still advocating greater attention to social issues, promised to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements. The 2002 presidential election proved to be a referendum on eight years of "neo-liberal" policies enacted by Cardoso. High unemployment rates and economic stagnation led voters to support Lula, a critic of neoliberalism. Lula was elected decisively in the second round of voting with a significant majority of the vote compared to Cardoso's designated successor, José Serra, the Minister of Health and Senator from São Paulo.

During his first term, President Lula maintained the restrained economic policies associated with his predecessor. In 2003, the Lula government enacted social security and tax reforms, and in 2004, a law to allow more private investment in public infrastructure projects. President Lula launched several social programs, some of which have been more successful than others. The *Bolsa Familia* (Family Stipend) program, which provides monthly stipends to 11.1 million poor families in exchange for compulsory school attendance for all school-age children, has been credited with reducing poverty, but some critics argue that it has made poor households too dependent on government handouts.<sup>9</sup> By 2005, legislative initiatives had stalled, and President Lula was increasingly criticized for failing to develop effective programs to address land distribution and crime. Critics argued that, ironically, one of the Lula government's only major achievements in the first term was to maintain the orthodox economic policies of the Cardoso administration. In 2006, some analysts began to dismiss President Lula's efforts to expand Brazil's international profile as a leader among developing countries as "a relatively inexpensive [tactic] to shore up domestic support"<sup>10</sup> that had failed to yield many concrete results. Criticism of Lula further escalated with the onset of several corruption scandals involving top PT officials that occurred during the latter half of Lula's first term.<sup>11</sup> A congressional inquiry in April 2006 cleared President Lula of any direct responsibility for the scandals.

## October 2006 Elections

President Lula captured 61% of the votes to the PSDB's Gerardo Alckmin's 39% in the second round of presidential elections held in late October 2006. President Lula won handily in the poorer north and northeastern regions of the country, but failed to carry the more prosperous

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<sup>7</sup> Mercosur is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991. See CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>8</sup> Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997; Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004.

<sup>9</sup> Anthony Hall, "From *Fome Zero* to *Bolsa Familia*: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006.

<sup>10</sup> Jeffrey Cason, "Hopes Dashed? Lula's Brazil," *Current History*, February 2006.

<sup>11</sup> Wendy Hunter, "The Normalization of An Anomaly: The Worker's Party in Brazil," Paper Presented at the Latin American Studies Association Conference, March 2006.

southern and western states or São Paulo. Observers have assessed that Brazilians, though divided by class and region, effectively voted in favor of continuing macroeconomic stability under a second Lula Administration despite the corruption scandals that had involved Lula's party during the first term.

The PT did not fare as well as President Lula in the legislative elections, suffering a loss of 9 seats in the Chamber of Deputies and losing 4 Senate seats. Some assert that the election outcome shows that President Lula successfully distanced himself from the PT and its corruption scandals, relying on his personal popularity rather than his party affiliation to win. Others attribute his win to the success of the Bolsa Familia program and the country's macroeconomic stability, which led voters in poorer income brackets to overwhelmingly support him.<sup>12</sup>

## The Second Lula Administration

Despite enjoying high approval ratings (70% in December 2008)<sup>13</sup> and benefitting from an expanding economy, President Lula's second administration has been periodically hindered by corruption scandals and a lack of support from members of his coalition. For example, legislative progress stalled throughout 2007 as the President of the Brazilian Senate, Renan Calheiros, a key Lula ally, faced corruption charges. In December 2007, Senators voted to acquit Calheiros of all wrongdoing even though a congressional ethics panel had recommended that he be impeached. President Lula suffered a major setback in December 2007 as Senators—including some of his own supporters—voted not to extend the provisional tax on financial transactions (CPMF) that his government had requested.<sup>14</sup>

The October 2008 municipal elections dominated the political scene in Brazil throughout much of the year. Although polls predicted that PT candidates would sweep a majority of the mayoral races held in large cities in the first round of voting, the PT did not perform as well as expected. While the number of PT mayors increased from 411 to 559, the PT only won 6 mayoral races in state capitals and lost a second round run-off election for the politically-important mayorship of São Paulo. The PT-allied PMDB won 1,201 mayoral races while the main opposition party, the PSDB, won 786. Together, the 12 parties in the ruling coalition won 76.9 million votes, nearly 60% of all votes cast.<sup>15</sup> Some claim that the outcome of the municipal ballot will have a significant impact on the 2010 presidential election as a result of having demonstrated the relative strength of political parties and electoral coalitions as politicians begin to contemplate strategic alliances; others maintain that the influence of the municipal elections will be limited.<sup>16</sup>

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<sup>12</sup> Matt Moffett and Geraldo Samor, "In Brazil Campaign, A Barroom Brawl and a Class War," *Wall Street Journal*, October 27, 2006; Wendy Hunter and Timothy J. Power, "Rewarding Lula: Executive Power, Social Policy, and the Brazilian Elections of 2006," *Latin American Politics and Society*, Spring 2007.

<sup>13</sup> "Brazil Still Loves Lula," *Latin News Regional Report*, December 2008.

<sup>14</sup> "CPMF Failure May be Beginning of "Second Term Curse" for Lula," *Latin American Regional Report*, December 2007.

<sup>15</sup> "Brazil's PMDB in Pole Position After Municipals," *Latin News Daily*, October 28, 2008.

<sup>16</sup> Country Report: Brazil," *Economist Intelligence Unit*, July 2008; "O Verdadeiro Peso das Eleições Municipais," *Epoca*, January 21, 2008.

## Economic and Social Conditions

Throughout the last two decades, Brazil's fiscal and monetary policies have focused primarily on inflation control. When President Lula took office in 2003, Brazil had an extremely high level of public debt, virtually necessitating that he adopt austere economic policies. Despite his leftist political origins, President Lula has maintained restrained economic policies, even surpassing the IMF's fiscal and monetary targets. As a result, Brazil has begun to experience some benefits, including lower inflation and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule. The government's overall foreign debt was reduced by 19.9% between 2003 and 2006.<sup>17</sup> Fiscal discipline has also been accompanied by record exports that enabled Brazil to post GDP growth of 5.4% in 2007 and record trade surpluses in each of the last four years. However, Brazil still suffers from high real interest rates, which have dampened investment and economic growth. In addition, rising inflation rates, largely attributed to high food prices and swelling domestic demand, are of increasing concern to Brazilian consumers.

Brazil is a major exporter of agricultural and industrial products and plays a significant role in the world trading system. Since 2002, Brazil has been the world's third largest exporter of agricultural products after the United States and the European Union. In 2007, Brazil was the world's leading exporter of coffee, orange juice, sugar, chicken, beef, soy, and tobacco. Demand for Brazilian commodity exports in Asia is strong, as is global demand for Brazil's manufactured goods and services. Brazil is the world's second largest producer of ethanol (after the United States) and its state-run oil company, Petrobras, a leader in deep-water oil drilling, has recently announced the discovery of what may be the world's largest oil field find in 25 years.<sup>18</sup>

Brazil also has a relatively balanced trade regime. Its main trading partners in 2007 were the European Union (25% of exports and 22% of imports), Asia (20% of exports, 29% of imports, with China alone accounting for 7% of exports and 9% of imports), Latin America (26% of exports, 18% of imports), the United States (16% of exports, 16% of imports), Africa (5% of exports, 9% of imports), and the Middle East (4% of exports and 3% of imports). In 2007, the value of Brazil's exports reached some \$159 billion and the country's trade surplus was \$45 billion.<sup>19</sup>

## Economic Challenges and Efforts to Boost Growth

One of President Lula's goals for his second term is to boost Brazil's lagging economic growth. Between 2000 and 2006, Brazil's annual growth rates averaged roughly 2.7%. In 2006, Brazil posted GDP growth of about 2.8%, the second lowest recorded in Latin America. In 2007, President Lula launched a Program to Accelerate Growth (PAC) aimed at boosting Brazil's growth rates to 5% per year through increased public and private investment in infrastructure. The PAC provides tax breaks and incentives to spur investment and includes measures to improve and simplify Brazil's regulatory framework. While some have praised the PAC's focus on boosting government investment in much-needed infrastructure projects, others have criticized it

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<sup>17</sup> "Brazil Foreign Debt at \$168.9 Billion End-2006," *Latin America News Digest*, January 26, 2007.

<sup>18</sup> "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

<sup>19</sup> Trade data available from World Trade Atlas, Global Trade Atlas. See also: "Prospects 2008: Brazil May Reach Investment Grade," *Oxford Analytica*, December 10, 2007.



for failing to curb excessive public spending or to promote labor reform. GDP growth in Brazil reached 5.4% in 2007, and is estimated to have reached 5.3% in 2008.<sup>20</sup>

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

The global financial crisis has further complicated President Lula's attempts to accelerate economic growth. Between mid-2008 and January 2009, Brazil's currency fell 30% against the dollar and demand for a number of basic goods—which together are responsible for more than half of Brazil's export earnings—fell by an average of 30%.<sup>22</sup> The Brazilian government has taken several steps to counteract these trends and minimize the impact of the financial crisis on the Brazilian economy. In order to address the credit shortage, the government reduced the rate of compulsory cash deposits for commercial banks, which freed \$37.9 billion in credit, the national social and economic development bank (Bndes) increased credit lines to productive sectors, and the central bank provided \$12.4 billion to small banks.<sup>23</sup> President Lula has also acted to maintain domestic consumption and economic growth. In December 2008, the government announced an \$8.4 billion tax relief package that will reduce personal income taxes for the new middle classes and reduce the sales tax on industrial products and financial operations.<sup>24</sup> Additionally, the government announced plans for a bond sale of \$6 billion to finance a new sovereign wealth fund to be used for public investment and its intention to increase PAC investments by \$53 billion to a total of \$255 billion through 2010. However, only \$30 billion of the PAC investment is government funded and it is unclear if the private sector will be willing and able to provide the remaining \$225 billion given current economic conditions.<sup>25</sup> While the Brazilian government believes it will be able to maintain a rate of GDP growth over 3% in 2009, a number of analysts believe it will be slightly lower.<sup>26</sup>

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<sup>20</sup> "Brazil: Country Profile 2008," *Economist Intelligence Unit*; "Country Report: Brazil," *Economist Intelligence Unit*, December 2008.

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

<sup>22</sup> "Brazil: Government Moves to Boost Sagging Growth," *Oxford Analytica*, December 30, 2008. For more information on the initial impact of the financial crisis in Brazil, see J.F. Hombeck's section on Brazil in CRS Report RL34742, *The U.S. Financial Crisis: The Global Dimension with Implications for U.S. Policy*, coordinated by Dick K. Nanto

<sup>23</sup> "Brazil: Government Moves to Boost Sagging Growth," *Oxford Analytica*, December 30, 2008; "Investment Stepped Up to Combat Slowdown," *Latin American Weekly Report*, December 11, 2008.

<sup>24</sup> "Tax Relief for the Middle Classes," *Latin American Weekly Report*, December 18, 2008.

<sup>25</sup> "Investment Stepped Up to Combat Slowdown," *Latin American Weekly Report*, December 11, 2008.

<sup>26</sup> "Country Report: Brazil," *Economist Intelligence Unit*, December 2008; "Brazil: Government Moves to Boost Sagging Growth," *Oxford Analytica*, December 30, 2008.

## Social Indicators

Despite its well-developed economy and large resource base, Brazil has had problems solving deep-seated social problems like poverty and income inequality. Brazil has had one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. A 2004 World Bank study reported that some 50 million Brazilians live in poverty.<sup>27</sup> The U.N. Development Program has identified 600 Brazilian municipalities, many in the north and northeastern part of the country, in which poverty levels are similar to those present in poor African countries. One major cause of poverty and inequality in Brazil has been the extreme concentration of land ownership among the country's elites. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.<sup>28</sup> The Brazilian government has also acknowledged that there is a racial component to poverty in Brazil. People of African descent in Brazil, also known as Afro-Brazilians, represent roughly 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.<sup>29</sup> Other factors that inhibit social mobility in Brazil include a lack of access to quality education and job training opportunities for the country's poor.

Brazil's endemic poverty and inequality have, until recently, not been significantly affected by the government's social programs. A March 2005 OECD study found that, even though Brazil has spent the same level or more of public spending on social programs as other countries with similar income levels, it has not achieved the same social indicators as those countries.<sup>30</sup> There has been more recent evidence, however, that the Lula government's Bolsa Familia (Family Stipend) program, combined with relative macroeconomic stability and growth over the past few years, has reduced poverty rates, particularly in the north and northeast regions of the country.<sup>31</sup> According to the Getulio Vargas Foundation, the level of poverty in Brazil during Lula's first term in government fell by 27.7%. Since 2002, the proportion of the Brazilian population who define themselves as middle-class has risen from 44% to 52%.<sup>32</sup>

## Foreign and Trade Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries in economic cooperation and collective security efforts, and an emerging world power. Brazilian foreign policy has been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.<sup>33</sup> Brazil engages in multilateral diplomacy through the U.N. and the Organization

<sup>27</sup> David De Ferranti et al., *Inequality in Latin America: Breaking with History?* Washington, DC: The World Bank, 2004.

<sup>28</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>29</sup> Ricard Henriques, "Desigualdade racial no Brasil," *Brasilia: Instituto de Pesquisa Econômica Aplicada (IPEA)*, 2001.

<sup>30</sup> "Economic Survey of Brazil 2005," *Organization for Economic Cooperation and Development*, March 2005.

<sup>31</sup> Hall, "From *Fome Zero* to *Bolsa Familia*," November 2006; "Human Development Report 2007/8," United Nations Development Program, November 2007.

<sup>32</sup> Nilson Brandão Junior and Marianna Aragão, "Miséria no Brasil Cai 27,7% no 1º Mandato de Lula," *O Estado de S.Paulo*, September 20, 2007; "Brazil: Half the Nation, a Hundred Million Citizens Strong," *Economist*, September 13, 2008.

<sup>33</sup> Georges D. Landau, "The Decisionmaking Process in Foreign Policy: The Case of Brazil," *Center for Strategic and* (continued...)

of America States (OAS). It is currently commanding a multinational U.N. stabilization force of some 9,000 personnel in Haiti. Brazilian foreign policy has tended to emphasize regional integration, first through the Common Market of the South (Mercosur) and now the Rio Group and the Union of South American Nations (UNASUR). Brazil's role as a leader in South America has been challenged by Hugo Chávez in Venezuela, who has used his country's vast oil wealth to gain influence in the region, particularly in Bolivia and Ecuador. Whereas Lula emphasized forging relations with other emerging economies during his first term, he appears to have adopted a more pragmatic foreign policy during his second term, including a focus on improving Brazil-U.S. relations.

Since the mid-1990s, Brazil has had much more success in developing political cohesion than true economic integration among its neighbors in the Southern Cone. Mercosur was established in 1991 by Brazil, Argentina, Paraguay, and Uruguay. In 1996, Chile and Bolivia became "associate members"; Peru followed in 2003 (not implemented) and Venezuela and Mexico in 2004.<sup>34</sup> Associate members have no voting rights and need not observe the common external tariff. In October 2004, after years of talks, Mercosur and the Andean Community of Nations signed a trade pact, giving all Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—the equivalent of associate membership. This breakthrough led to the creation of the South American Community of Nations (later renamed UNASUR) two months later in a pact that included 12 countries (those in Mercosur, the Andean Community, along with Chile, Guyana, and Suriname). In December 2005, Mercosur agreed to the accession of Venezuela as a full member, which some say could add a decidedly anti-American factor to the pact. The Paraguayan Congress has yet to approve Venezuela's accession. In December 2006, Bolivia expressed its intention to join Mercosur as a full member, but critics say that its accession would politicize the union unnecessarily.

Recent events do not bode well for the future of Mercosur. In 2006, Mercosur's internal dispute resolution process proved unable to resolve a dispute between Argentina and Uruguay over whether to allow European companies to construct two paper mills along the river that demarcates their border. At the same time, Uruguay diversified its trade with the United States and even threatened to withdraw from Mercosur, arguing that it seems to serve only the needs of Argentina and Brazil. Furthermore, Mercosur has not addressed trade asymmetries among its members, resolved the issue of double tariffs on some imports from outside the region, or drafted a common customs code, leaving some analysts to believe it has become a forum for foreign policy posturing. Some within the Brazilian government and private sector believe Brazil has outgrown Mercosur. These thoughts have only been reinforced by recent talks between Brazil and the European Union concerning the possibility of a bilateral trade deal.<sup>35</sup>

In addition to trying to expand its regional profile through established political and economic channels, Brazilian government and business officials have worked together to expand the country's commercial interests in the region. Some of those efforts have been more successful than others. One initiative has involved the use of so-called "ethanol diplomacy." Brazil has sought to reassert regional leadership vis-à-vis oil-rich Venezuela by signing bio-fuels partnership

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(...continued)

*International Studies*: Washington, DC: March 2003.

<sup>34</sup> For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>35</sup> "Deathknell Sounds," *Latin American Regional Report*, January 2009.

agreements with countries that would otherwise be dependent on expensive oil imports.<sup>36</sup> A not-so-successful endeavor has involved trying to use Petrobras' investments in Bolivia to influence the populist government of Evo Morales. Even though Petrobras had made extensive investments in Bolivia, the Lula government was caught off guard by Morales's May 2006 nationalization of his country's natural gas industry. President Lula has since acceded to several of Morales's demands—including cutting tariffs for Bolivian exports to Brazil and stepping up investments in Bolivia—in order to secure access to Bolivian gas.<sup>37</sup>

Brazil's political, business, and military ventures are complemented by the country's trade policy. In Brazil, the Ministry of Foreign Relations continues to dominate trade policy, causing the country's commercial interests to be (at times) subsumed by a larger foreign policy goal, namely, enhancing Brazil's influence in Latin America and the world.<sup>38</sup> For example, while concluding meaningful trade agreements with developed economies (such as the United States and the European Union) would probably be beneficial to Brazil's long-term economic self-interest, the Brazilian government has instead prioritized its leadership role within Mercosur and expanded trade ties with countries in Africa, Asia and the Middle East.

Some analysts assert that these “south-south” initiatives have enhanced Brazil's international profile, but others have noted that they have yielded few concrete results for the country, and that they have come at the expense of Brazil-U.S. relations. Roberto Abdenur, the former Brazilian Ambassador to Washington, criticized the “south-south” approach of the Brazilian Foreign Ministry for indoctrinating Brazilian diplomats with “anti-imperialist” and “anti-American” attitudes.<sup>39</sup>

## Relations with the United States

Currently, relations between the United States and Brazil may be characterized as warm and friendly. The United States has increasingly regarded Brazil as a significant power, especially in its role as a stabilizing force in Latin America. U.S. officials tend to describe Brazil as a friendly country, similar to Chile, governed by a moderate leftist government. They assert that the United States seeks to increase cooperation with moderate leftist governments in Latin America in order to ease mounting tensions among the countries in South America, and to deal with populist governments in the region. Brazil under President Lula has helped diffuse potential political crises in Venezuela, Ecuador, and Bolivia, and supported Colombia's ongoing struggle against terrorist organizations and drug traffickers. Brazil is also commanding the U.N. stabilization force in Haiti.

Although Brazil and the United States share common goals for regional stability, Brazil's independent approach to foreign policy has led to periodic disputes with the United States on trade and political issues, including how (and whether) to create a Free Trade Area of the Americas (FTAA) and Brazil's vocal opposition to the war in Iraq. Despite these disagreements,

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<sup>36</sup> “Chávez, Lula Promote Competing Visions,” *Miami Herald*, August 10, 2007.

<sup>37</sup> “Bolivia's Populism Steps on Brazil,” *Christian Science Monitor*, May 8, 2006; “Brazil May Pay a Price for Generous Deal on Gas,” *Financial Times*, February 22, 2007; “Brazil Seeks to Lure Bolivia Away from Venezuela,” *Reuters*, December 13, 2007.

<sup>38</sup> See CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J. F. Hornbeck.

<sup>39</sup> Otávio Cabral, “Nem na Ditadura,” *Veja*, February 7, 2007.

Brazil and the United States have worked closely on a wide range of bilateral and regional issues. Brazil-U.S. cooperation has increased in the past year or so, as reflected in the continuing high-level contacts between the two governments, particularly on energy issues. Currently at least ten bilateral mechanisms are in place through which U.S. and Brazilian government and business leaders interface on issues of shared concern.

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. In FY2007, Brazil received \$16 million in U.S. aid. In FY2008, Brazil received an estimated \$14.8 million. The FY2009 request for Brazil was for \$8.6 million, substantially lower than in previous years. A continuing resolution (H.R. 2638/P.L. 110-329) will provide funding for U.S. aid programs in Brazil at FY2008 levels through March 6, 2009. U.S. assistance priorities in Brazil include supporting environmental programs and the strengthening of local capacity to address threats to the Amazon, deterring and preventing illicit activities, and reducing the transmission of communicable diseases.

## **Selected Issues in U.S.-Brazil Relations**

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

### **Counternarcotics**

Brazil is not a significant drug producing country, but is a major conduit for the transit of cocaine, marijuana, and some heroin from neighboring Andean countries destined primarily for Europe, the United States, and local markets. It is the second largest consumer (after the United States) of cocaine in the Western Hemisphere. The Bush Administration included Brazil on a list of major drug-producing or drug-transit countries.<sup>40</sup> In FY2007, Brazil received \$4.0 million in U.S. counternarcotics assistance through the Andean Counterdrug Program (ACP). For FY2008, Brazil received close to \$1 million in ACP assistance, mainly for interdiction and law enforcement activities. In FY2009, the Administration requested \$1 million in ACP funding for Brazil.

In recent years, Brazil has cooperated extensively with neighboring countries in counternarcotics activities and implemented a law permitting the shooting down of civilian aircraft (with adequate safeguards) suspected of being engaged in the trafficking of illicit narcotics. Brazil has also constructed a \$1.4 billion sensor and radar project called the Amazon Vigilance System (SIVAM from its acronym in Portuguese) in an attempt to control illicit activity in its Amazon region. A new anti-money laundering law was drafted in 2005, but still has not been considered by the Brazilian Congress. In 2007, Brazil's federal police, which generally are responsible for about 75% of total Brazilian drug seizures and detentions, captured 13.1 metric tons of cocaine, 488 kilograms of crack cocaine, and 16 kilograms of heroin.<sup>41</sup> In 2007, Brazilian police arrested a major Colombian-born drug trafficker and leader of the Norte del Valle cartel. He was extradited

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<sup>40</sup> Memorandum for the Secretary of State, "Major Illicit Drug-Producing and Drug-Transit Countries for FY2009," September 15, 2008, Presidential Determination No. 2008-28.

<sup>41</sup> U.S. Department of State, International Narcotics Control Strategy Report, February 2008.

to the United States in August 2008 to face charges of drug trafficking, money laundering, and murder.<sup>42</sup>

## **Counterterrorism and the Tri-Border Area<sup>43</sup>**

In its April 2008 State Department Country Reports on Terrorism, the State Department highlights threats in the Tri-Border Area (TBA) of Brazil, Paraguay, and Argentina, a region with a large Muslim population. The TBA has long been used for arms and drug trafficking, contraband smuggling, document and currency fraud, money laundering, and the manufacturing of pirated goods. According to the report, the United States remains concerned that Hezbollah and Hamas are receiving financial, logistical, and moral support from Muslims in the TBA, although the report also stated that there were no corroborated reports that these or any other Islamic groups had an operational presence in the area. The section on Brazil states that the government has “diligently worked with their U.S. counterparts” and has become “increasingly capable of monitoring domestic financial operations.” On the other hand, it notes that two key legislative initiatives that have been pending since 2005, an anti-money laundering law and an antiterrorism law, have yet to be introduced in the Brazilian Congress.

## **Energy Security**

In the last few years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a country that has successfully reduced its reliance on foreign oil by using alternative energies. At the same time, Brazil has attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program. More recently, Brazil’s state-run oil company, Petrobras, a leader in deep-water oil drilling, has discovered what may be the world’s largest oil field find in 25 years.<sup>44</sup>

## **Oil**

On September 2, 2008, President Lula celebrated the first oil output to be extracted from the new offshore fields. The discovery of the Tupi field in November 8, 2007, located in the Santos Basin 350 miles off the coast of Rio de Janeiro, has the potential to turn Brazil into a major oil and gas producer and an oil exporter. The field alone may hold up to 50 billion barrels of oil. The government is considering new measures that may pave the way for a heavy state hand in the country’s energy markets, such as the creation of a new 100% state-owned company to manage the exploration blocks, which has raised concerns among some foreign investors.<sup>45</sup>

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<sup>42</sup> Marion Barbel, “Brazil Extradites Colombian Drug Trafficker to the United States,” *Global Insight Daily Analysis*, August 25, 2008.

<sup>43</sup> For more information, see CRS Report RS21048, *U.S. Special Operations Forces (SOF): Background and Issues for Congress*, by Andrew Feickert.

<sup>44</sup> “Brazil’s Now a Hot Commodity,” *Los Angeles Times*, January 3, 2008.

<sup>45</sup> “Brazil’s Golden Times Start to Roll,” *LatinNews Daily*, September 3, 2008; “Hydrocarbons Potential Poses Major Challenges,” *Oxford Analytica*, November, 20, 2007.

## Ethanol and Other Biofuels<sup>46</sup>

Brazil stands out as an example of a country that has become a net exporter of energy, partially by increasing its use and production of ethanol. On March 9, 2007, the United States and Brazil, the world's two largest ethanol producing countries, signed a Memorandum of Understanding to promote greater cooperation on ethanol and biofuels in the Western Hemisphere. The agreement involves: (1) technology-sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and, (3) multilateral efforts to advance the global development of biofuels. The first countries to receive U.S.-Brazilian assistance were: the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis.<sup>47</sup> On October 9, 2007, the House passed H.Res. 651 (Engel), recognizing the warm friendship and expanding relationship that exists between the United States and Brazil and the importance of the U.S.-Brazil biofuels cooperation. Another bill, S. 1007 (Lugar), that would deepen Brazil-U.S. energy cooperation and provide \$60 million to support the U.S.-Brazil MOU on biofuels, was reported out of the Senate Foreign Relations Committee on September 23, 2008.

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. On the bilateral front, several high-level visits have taken place aimed at boosting bilateral cooperation on biofuels. U.S. and Brazilian consultants carried out feasibility studies that identified short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. The government of St. Kitts and Nevis has agreed to implement the U.S.-Brazil-Organization of American States (OAS) recommendation that it should dedicate land to bioenergy crops that will be used to produce electricity. On November 20, 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.<sup>48</sup> On the multilateral front, the United States and Brazil are working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform.

Despite this progress, several potential obstacles to increased U.S.-Brazil cooperation on biofuels exist, including current U.S. tariffs on most Brazilian ethanol imports. The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.<sup>49</sup> Some Brazilian ethanol is processed at plants in the Caribbean for duty-free entry into the United States, but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff. In the 110<sup>th</sup> Congress, legislation was introduced (H.R. 6137, Shadegg) that would amend the Harmonized Tariff Schedule of the United States to eliminate the additional tariff on foreign ethanol used as fuel. Another bill, H.R. 6183 (Brown-Waite), would give ethanol used as fuel duty-free treatment. Still another bill was

<sup>46</sup> For more information, see CRS Report RL34191, *Ethanol and Other Biofuels: Potential for U.S.-Brazil Energy Cooperation*, by Clare Ribando Seelke and Brent D. Yacobucci.

<sup>47</sup> "Memorandum of Understanding Between the United States and Brazil to Advance Cooperation on Biofuels," U.S. Department of State, Office of the Spokesman, March 9, 2007.

<sup>48</sup> "Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development," U.S. Department of State, Office of the Spokesman, November 20, 2008.

<sup>49</sup> For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.

introduced, S. 3080 (Feinstein), that would require the President to periodically adjust the ethanol tariff so that it remains the same as the blender's tax credit.<sup>50</sup>

## **Nuclear Energy**

Between the mid-1970s and the mid-1980s, Brazil sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. In 1991, Brazil and Argentina reached an agreement to use nuclear energy for peaceful purposes only. Brazil joined the Nuclear Nonproliferation Treaty (NPT) in 1998 and has participated in several multilateral nonproliferation regimes, including the Missile Technology Control Regime and the Nuclear Suppliers Group (NSG). It is also a party to the Treaty of Tlatelolco, which establishes Latin America as a nuclear-weapon-free zone.

Despite its nonproliferation credentials, some international observers were concerned when Brazil commissioned a uranium enrichment plant in 2004 to be located at the Resende nuclear facility outside Rio de Janeiro. Uranium enrichment can be used for peaceful purposes (such as fuel for nuclear power plants) or for military purposes (nuclear weapons). The Brazilian government asserts that it needs to enrich uranium in order to produce its own fuel for power reactors, thereby increasing its energy independence. In 2005, Brazilian officials refused to give International Atomic Energy Agency (IAEA) inspectors full access to the centrifuge plant, citing security concerns and proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.<sup>51</sup>

President Lula has stated that Brazil is going to spend about \$540 million over the next eight years in order to build a third nuclear power plant and a nuclear-powered submarine. In February 2008, Brazil and Argentina agreed to establish a bi-national commission to explore future nuclear cooperation between the two countries, including the possible development of a joint nuclear reactor.<sup>52</sup> In September 2008, The Brazilian Minister for Energy and Mining announced plans to build 60 new nuclear plants throughout the country over the next 50 years. He claimed this expansion of nuclear energy is the only way that Brazil will be able to meet the energy needs of its growing population while avoiding massive carbon emissions through the burning of fossil fuels.<sup>53</sup>

## **Trade Issues**

Trade issues are central to the bilateral relationship between Brazil and the United States, with both countries being heavily involved in subregional, regional, and global trade talks. Brazil has

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<sup>50</sup> For more information, see CRS Report RL32290, *Arkansas Emergency Management and Homeland Security Statutory Authorities Summarized*, by Keith Bea, L. Cheryl Runyon, and Kae M. Warnock.

<sup>51</sup> "New Round of Nuclear Enrichment Scare Stories," *Latin American Weekly Report*, February 12, 2006; Bernard Aronson, "Brazil's Chance to Lead on Nuclear Containment," *Wall Street Journal*, March 18, 2005; Sharon Squassoni and David Fite, "Brazil as Litmus Test: Resende and Restrictions on Uranium Enrichment," *Arms Control Today*, October 2005.

<sup>52</sup> Jessica Lasky-Fink, "Brazil, Argentina Pursue Nuclear Cooperation," *Arms Control Today*, April 1, 2008.

<sup>53</sup> "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report*, November 2008.



sought to strengthen Mercosur and to establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosur-European Union free trade agreement. The United States has been actively involved in the Doha negotiations and, until late 2005, pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA). Since negotiations for the FTAA have been largely abandoned, the United States has continued to sign bilateral and subregional agreements with countries throughout Latin America.

### **Doha Round of the World Trade Organization (WTO) Talks** <sup>54</sup>

Brazil has had a leading role in the Doha round of the World Trade Organization (WTO) talks. In 2003, Brazil led the G-20 group of developing countries' efforts to insist that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, but formal talks were suspended indefinitely in July 2006 after key negotiating groups failed to break a deadlock on the issue of agricultural tariffs and subsidies. In June 2007, negotiators from India and Brazil walked out of a round of informal talks with representatives from the United States and the European Union (EU), refusing to open their markets further unless U.S. and EU subsidies were substantially reduced. Trade ministers again failed to reach a breakthrough at an eight day negotiating ministerial held in July 2008, a non-agricultural market access (NAMA) negotiating group meeting in October 2008, and a G-20 meeting in November 2008.<sup>55</sup>

### **WTO Disputes**

Brazil won a WTO dispute settlement case against U.S. cotton subsidies in September 2004, which the United States appealed, but Brazil's position was reaffirmed by the WTO appellate body in March 2005. In keeping with the requirement that the United States modify its policies or negotiate a mutually satisfactory settlement with Brazil, the Bush Administration in early July 2005 asked Congress to modify the cotton subsidy program and Brazil agreed to temporarily suspend retaliatory action. In December 2007, a WTO dispute panel ruled in support of Brazil's claim that the United States is not moving quickly enough to comply with the 2005 ruling that it should remove some of its cotton subsidies.<sup>56</sup>

In a separate decision, in December 2007 the WTO decided to investigate Brazil and Canada's claims that U.S. agriculture support programs have exceeded allowed levels.<sup>57</sup> Brazil has asserted that the United States has exceeded its annual commitment levels for the total aggregate measure of support (AMS) in each of the years 1999, 2000, 2001, 2002, 2004, and 2005. It also has complained that the U.S. export credit guarantee program operates as a WTO-legal export subsidy. Canada is pursuing a similar case against the United States.

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<sup>54</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>55</sup> "Uncertainty Lies Ahead for WTO," *Oxford Analytica*, July 31, 2008; "WTO Members to Suspend Effort to Reach Multilateral Deal on Sectorals, Chair Says," *BNA: International Trade Daily*, October 23, 2008; "Lamy: Lack of Political Will Blocking Doha Deal, But Cotton Doable," *Inside U.S. Trade*, December 19, 2008.

<sup>56</sup> "WTO Tells U.S. to Act on Illegal Cotton Subsidies," *Financial Times*, December 19, 2007. For more information, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*, by Randy Schnepf.

<sup>57</sup> See CRS Report RL34351, *Brazil's and Canada's WTO Cases Against U.S. Agricultural Support*, by Randy Schnepf.

In November 2008, Brazil presented a petition of consultation in the WTO against the United States. The petition concerns anti-dumping measures adopted by the U.S. government in relation to Brazilian orange juice imports. The Brazilians question the U.S. Department of Commerce's use of a practice known as 'zeroing' in its 2005 and 2007 investigations, which found that Brazilian export companies had dumping margins of up to 4.8%. Under zeroing, exports with values above the domestic market value are excluded from calculations of dumping margins while exports with values below the domestic market value are included. The Brazilians argue that exports above domestic market value compensate for those below domestic market value and by excluding only the exports above market value, dumping margins are artificially inflated.<sup>58</sup>

### Generalized System of Preferences <sup>59</sup>

The Generalized System of Preferences (GSP) provides duty-free tariff treatment to certain products imported from developing countries. The U.S. program (as established by Title V of the Trade Act of 1974) was extended until December 31, 2008, in section 8002 of P.L. 109-432 for all GSP beneficiary countries not covered by the African Growth and Opportunity Acceleration Act (AGOA) of 2004 (P.L. 108-274, extended GSP benefits for AGOA beneficiary countries through September 30, 2015). In the 109<sup>th</sup> Congress, renewal of the preference was somewhat controversial, owing, in part, to concerns of some that some of the more advanced developing countries (such as Brazil and India) were contributing to the impasse in the Doha round of WTO talks. Compromise language worked out between the House and Senate extended GSP for two years for all countries, while asserting the President "should" revoke "competitive need limitation (CNL)" waivers for products from certain countries, based on the criteria specified. In June 2007, the Bush Administration decided to revoke the CNL waivers on Brazilian brake parts and ferrozirconium.<sup>60</sup> On September 29, 2008, the House passed H.R. 7222 (Rangel), which extends current trade preferences for Brazil and other countries under the Generalized System of Preferences (GSP) through December 31, 2009. The Senate passed H.R. 7222 on October 2, 2008, and President Bush signed it into law (P.L. 110-436) on October 16, 2008.

### Intellectual Property Rights

In the last few years, Brazil has taken steps to improve its record on protecting intellectual property rights (IPR). The Brazilian government has created a national action plan to address piracy and intellectual property crimes, which has included increased police actions. Brazil and the United States continue to work together to address intellectual property issues, primarily through the U.S.-Brazil Bilateral Consultative Mechanism and the U.S.-Brazil Commercial Dialogue. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant IPR violations to the Watch List in 2007. Brazil remained on the Watch List in 2008. In order to build on progress that has been made, USTR recommends that Brazil should consider strengthening its IPR enforcement legislation, more vigorously addressing book and Internet piracy, and signing the World Intellectual Property Organization Internet Treaties.<sup>61</sup> The U.S. government has also expressed

<sup>58</sup> "Brazil Begins Legal Process Against the USA in the WTO," *Gazeta Mercantil*, November 26, 2008.

<sup>59</sup> This section was drawn from CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>60</sup> "USTR Revokes GSP Waivers for India, Brazil Despite Rangel Objections," *Inside U.S. Trade*, June 29, 2007.

<sup>61</sup> USTR, *Special 301 Report*, April 2008.

concerns about Brazil's periodic threats to issue compulsory licenses for patented pharmaceutical products. In May 2007, Brazil broke a patent on a drug used to treat HIV/AIDs that is produced by Merck & Co. in order to import a cheaper version of that drug from India.<sup>62</sup>

## Human Rights

The U.S. State Department's Country Report on Human Rights on Brazil covering 2007 states that while "the federal government generally respected the human rights of its citizens ... there continued to be numerous, serious abuses, and the record of several state [and municipal] governments was poor." Three human rights issues of particular concern include crime and human rights abuses by police, race and discrimination, and trafficking in persons.

### Violent Crime and Human Rights Abuses by Police

Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening citizens' security in Brazil. Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. In addition to rising crime rates, human rights groups have identified extrajudicial killings by police and prison authorities as Brazil's most pressing human rights problem.<sup>63</sup> Upon completing a November 2007 visit to Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to "kill with impunity in the name of security."<sup>64</sup> Prison conditions range from "poor to extremely harsh and life threatening," and the countrywide prison system, which housed more than 400,000 inmates in 2007, had almost double the system's design capacity.<sup>65</sup>

The current weaknesses in Brazil's criminal justice system became dramatically apparent in 2006, when gangs launched violent attacks that destabilized the cities of São Paulo and Rio de Janeiro. In May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (PCC), paralyzed the city of São Paulo for several days.<sup>66</sup> Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths. Brazilian police have been criticized for the brutal manner in which they responded to the gang violence.<sup>67</sup>

Violence in Rio de Janeiro has traditionally been linked to turf wars being waged between rival drug gangs for control of the city's drug industry or to clashes between drug gangs and police

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<sup>62</sup> "Haggling Saves Brazil \$1 Billion on AIDS Drugs," *Reuters News*, November 13, 2007.

<sup>63</sup> Brazilian authorities report that, partially in response to violent gang attacks, São Paulo state police killed 533 alleged criminals in 2006 compared to 300 in 2005. See "Police Killings of Suspects Up in Brazil," *Associated Press*, February 1, 2007. President Lula has taken some steps to combat police brutality in Brazil.

<sup>64</sup> "Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil," *States News Service*, November 15, 2007.

<sup>65</sup> U.S. Department of State, *Country Reports on Human Rights Practices 2007: Brazil*, March 2008.

<sup>66</sup> Formed in 1993 to protest the country's poor prison conditions, the PCC now has at least 6,000 dues-paying members and reportedly exerts control over more than 140,000 prisoners in the São Paulo prison system. Stephen Hanson, "Brazil's Powerful Prison Gang," *Council on Foreign Relations*, September 26, 2006.

<sup>67</sup> "Brazil: Battle of São Paulo Leaves a Disquieting Balance," *Latin American Weekly Report*, May 23, 2006; "Police are Criticized in Wave of Gang Violence in Brazil," *New York Times*, May 30, 2006; "Attacks in São Paulo Prompt Fears of Renewed Gang Offensive," *EFE*, February 7, 2007.

officials. In late December 2006, drug gangs torched buses and attacked police stations in Rio de Janeiro, leaving some 25 dead. Recent clashes have also involved vigilante militias, composed of off-duty police and prison guards, which are now charging citizens to “protect” them from the drug gangs. Rio officials have identified the militias as criminal groups but have thus far been unable to contain them.<sup>68</sup>

Many analysts have asserted that Brazilian politicians at all levels of government have failed to devote the resources and political will necessary to confront the country’s serious public security problems. In particular, they maintain that there has been a lack of coordination between federal, state, and local officials, and that political calculations have often prevented state governments, which have been largely ineffective in responding to the recent violence, from seeking much-needed assistance from the federal government. President Lula did not launch any major anti-crime initiatives during his first term, but announced a \$3 billion anti-crime initiative in August 2007 that combines police reform, prison construction, and other public security measures with significant investments in prevention, and rehabilitation programs.<sup>69</sup>

### **Race and Discrimination**<sup>70</sup>

People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country’s population, but constitute 64% of the poor and 69% of the extreme poor.<sup>71</sup> During the Cardoso administration, the Brazilian government began to collect better official statistics on Afro-Brazilians. These statistics found significant education, health, and wage disparities between Afro-Brazilians and Brazil’s general population.

Brazil now has the most extensive anti-discrimination legislation geared towards Afro-descendants of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas in order to increase minority representation in government service. Since 2002, several state universities in Brazil have enacted quotas setting aside admission slots for black students. Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.<sup>72</sup> In 2003, Brazil became the first country in the world to establish a Special Secretariat with a ministerial rank to manage Racial Equity Promotion Policies. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that most universities have preferred not to implement quota systems, and that the Special Secretariat lacks the funding, staff, and clout necessary to advance its initiatives.<sup>73</sup>

Despite these limitations, Brazil has taken a leadership role in advancing issues of race and discrimination within the Organization of American States, where it is leading the drafting of an

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<sup>68</sup> “Troops Alone Will Not Solve State of Violence,” *Latin American Brazil and Southern Cone Report*, January 2007; “Brazilian Slums Face a New Problem: Vigilante Militias,” *Christian Science Monitor*, February 8, 2007.

<sup>69</sup> “Brazil: Public Security Program Finally Launched,” *Latin American Weekly Report*, August 23, 2007.

<sup>70</sup> For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke.

<sup>71</sup> Ricard Henriques, “Desigualdade racial no Brasil,” Brasilia: Instituto de Pesquisa Econômica Aplicada (IPEA), 2001

<sup>72</sup> Livio Sansone, “Anti-Racism in Brazil,” *NACLA Report on the Americas*, September 1, 2004.

<sup>73</sup> Dayanne Mikevis and Matthew Flynn, “Brazil’s Civil Rights Activists Achieving Overdue Policy Reform,” *Citizen Action in the Americas*, No. 17, April 2005.

Inter-American Convention for the Prevention of Racism and All Forms of Discrimination and Intolerance. In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan Against Racial Discrimination to bilaterally promote racial equality in areas such as education, health, housing, and labor.<sup>74</sup> On September 9, 2008, the House passed H.Res. 1254 (Engel), expressing congressional support for the U.S.-Brazil anti-discrimination plan.

### Trafficking in Persons for Forced Labor<sup>75</sup>

Brazil is a source, transit, and destination country for people, especially women and children, trafficked for forced labor or sexual exploitation. In the State Department's *Trafficking in Persons (TIP) report, June 2006*, Brazil was listed as a Tier 2 Watch List country. In the report, the Brazilian government was cited for making only limited progress in bringing traffickers to justice and for failing to apply effective penalties for those who exploit forced labor. In the 2007 and 2008 TIP reports, Brazil was placed on Tier 2, reflecting some progress, but significant challenges remain, particularly in addressing trafficking for forced labor.<sup>76</sup>

In Brazil, between 25,000 and 100,000 men have reportedly been recruited to labor in slave-like conditions, many in the country's agribusiness industry. Roughly half of the close to 6,000 people freed from slave labor in 2007 were found working in sugarcane properties. Some have alleged that there are some 1,000 charcoal-making camps in the Brazilian Amazon that are using slave labor to produce pig iron, a key ingredient of steel, that is then purchased by major companies in the United States. Child prostitution, child sex tourism, and the trafficking of foreign workers into forced factory labor are also significant problems in Brazil.<sup>77</sup>

### HIV/AIDS

Internationally recognized as having one of the world's most successful HIV/AIDS program, Brazil has made the fight against the spread of HIV/AIDS a national priority. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral (ART) drugs on a limited basis by 1991, and later guaranteeing universal access by 1996. Currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government. The incidence of HIV/AIDS in Brazil has stabilized since 1997, and universal free access to ART has increased average survival

<sup>74</sup> "Partnering with U.S. to Fight Racial Bias," *Miami Herald*, September 8, 2008.

<sup>75</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

<sup>76</sup> Since 2001, the U.S. State Department has evaluated foreign governments' efforts to combat trafficking in persons in its annual Trafficking in Persons (TIP) reports, which are issued each June. Countries are grouped into four categories according to the U.S. assessment of efforts they are making to combat trafficking. Tier 1 is made up of countries deemed by the State Department to have a serious trafficking problem but fully complying with the minimum standards for the elimination of trafficking. Those standards are defined in the Victims of Trafficking and Violence Protection Act of 2000 (P.L. 106-386) as amended. Tier 2 is composed of governments not fully complying with those standards but which are seen as making significant efforts to comply. Tier 2 Watch List, first added as a category in the 2004 report, is made up of countries that are on the border between Tier 2 and Tier 3. Tier 3 includes those countries whose governments the State Department deems as not fully complying with TVPA's anti-TIP standards and not making significant efforts to do so. Tier 3 countries have been made subject to U.S. sanctions since 2003.

<sup>77</sup> Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006; U.S. Department of State, *Trafficking in Persons Report 2008*, June 4, 2008.

times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996.<sup>78</sup> HIV prevalence has been stable at 0.5% for the general population in Brazil since 2000, so most government prevention efforts are now targeted at high-risk groups where prevalence rates are still above 5%.

Brazil's decision to develop generic ART drugs to treat HIV/AIDS under the compulsory licensing provision of its patent law led to a subsequent 80% drop in the cost of treatment. That decision brought Brazil into conflict with the United States and the international pharmaceutical industry. In May 2001, the United States submitted a complaint to the WTO, which was later withdrawn, that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and prevented companies from developing new products in Brazil. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In August 2003, a WTO decision temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). That temporary waiver became permanent in late 2005.<sup>79</sup>

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

## Amazon Deforestation

The Amazon Basin contains over half of the world's remaining tropical rainforests and is the most biodiverse tract of tropical rainforest in the world. Some 22% of the world's known plant species exist in Brazil and 20% of the world's fresh water lies in the Amazon basin. The Amazon is also thought to be home to one third of all species in the world. Further, the Amazon rainforest is a sink for global carbon dioxide, and is considered by many to be an important asset in moderating climate change.

Throughout the last 40 years, the Brazilian Amazon has been increasingly deforested for development, including roads, settlements, logging, subsistence and commercial agriculture, and cattle ranching. In 1960, the Amazon was largely undeveloped, but today approximately 15%-20% of the rainforest has been deforested. Deforestation threatens the biodiversity of the Amazon region and is a concern for climate change. In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.<sup>80</sup>

<sup>78</sup> Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

<sup>79</sup> Mary Anastasia O'Grady, *Wall Street Journal*, December 16, 2005.

<sup>80</sup> Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate their existing lands. After agriculture, pastures grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning will alter the ecosystem sufficiently that forests cannot regenerate.

Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal. Deforestation rates, which have been fueled by increases in cattle ranching, soybean farming, and road building, peaked in 2004. However, in November 2008, the National Institute for Space Research (INPE) announced that 11,968 square kilometers (4,620 square miles) of the Amazon had been cleared between July 2007 and July 2008, the first rise in deforestation in four years.<sup>81</sup>

Since taking office, the Lula Administration has acted to prevent deforestation through the expansion of protected areas and new environmental policies. The Lula government created some 7 million hectares of new conservation reserves in 2004 and 2005. It also arrested more than 100 people for illegal logging between June 2005 and January 2006 and seized thousands of cattle.<sup>82</sup> In March 2006, President Lula signed the Public Forest Management Law, which allows companies access to 3% of the Amazon on the condition that they carry out sustainable operations. President Lula launched an international conservation fund for the Amazon in August 2008. According to Brazil's National Development Bank (BNDES)—which will manage the fund—the Brazilian government hopes to raise \$1 billion within one year to finance conservation and sustainable development projects. In December 2008, the Brazilian Environment Minister announced a plan to reduce the rate of Amazon deforestation by half to 5,850 square kilometers (2,259 square miles) per year by 2017. Brazil plans to meet this goal by increasing federal patrols of forested areas, replanting 5.5 million hectares (13.6 million acres) of forest, and financing sustainable development projects in areas where the local economy depends on logging. This is the first time that Brazil has set clear national goals for slowing deforestation.<sup>83</sup>

Although some conservation groups have praised President Lula for his administration's actions, recent rises in deforestation rates and the May 2008 resignation of Environment Minister Marina Silva—who was widely viewed as a strong defender of the Amazon—have led some environmentalists to question the commitment of President Lula and the Brazilian government to promoting sustainable development and environmental conservation.<sup>84</sup> Skeptics assert that the several years of declining deforestation rates recorded prior to 2008 did not occur because of any government initiatives, but because declining soybean prices coupled with the strengthening of Brazil's currency made it less profitable to clear the forests. They point out that deforestation rates began rising again in 2007 as cattle ranchers, soy producers and illegal loggers increasingly used forest fires and chainsaws to clear large tracts of the rainforest.<sup>85</sup> In order to combat further deforestation, most observers agree that greater cooperative efforts will have to be made between the Brazilian government, private companies, landowners, and the international community (including the United States).<sup>86</sup>

USAID environment programs directly support the U.S.-Brazil Common Agenda for the Environment. USAID environment programs seek to promote proper land-use trends over large

<sup>81</sup> Raymond Colitt, "Brazil Seizes Cattle to Stem Amazon Destruction," *Reuters News*, June 24, 2008; "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>82</sup> Cattle ranching is considered by some observers to be the number one culprit of deforestation, occupying as much as 80 percent of deforested areas, according to the newly appointed Environment Minister Carlos Minc.

<sup>83</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>84</sup> Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; "Silva Resignation Raises Environmental Fears," *Oxford Analytica*, May 19, 2008.

<sup>85</sup> "Brazil Gambles on Amazon Logging," *Chicago Tribune*, January 15, 2007; "Deforestation on the Rise Again in Amazon Region," *EFE News Service*, October 16, 2007; "Deforestation: The Amazon Burns Once Again," *The Guardian*, October 16, 2007.

<sup>86</sup> Soares-Filho et al., "Modelling Conservation in the Amazon Basin," *Nature*, March 2006.

geographic areas while encouraging environmentally-friendly income generation activities for the rural poor. USAID provided \$5.2 million for environmental programs in Brazil in FY2007 and an estimated \$9.5 million in FY2008. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, a regional program to support community groups, governments, and public and private organizations working in Brazil and other countries in the Amazon Basin in their efforts to conserve the Amazon's globally important bio-diversity. The Consolidated Appropriations Act for FY2008 (H.R. 2764/P.L. 110-161) stipulates that, in addition to funding for country programs, no less than \$15 million be made available in FY2008 for the Amazon Basin Conservation Initiative.

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS.



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