



# Brazil-U.S. Relations

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## Summary

As its economy has grown to be the 10<sup>th</sup> largest in the world, Brazil has consolidated its power in South America, extended its influence to the broader region, and become increasingly prominent on the world stage. The Obama Administration's national security strategy regards Brazil as an emerging center of influence, whose leadership it welcomes "to pursue progress on bilateral, hemispheric, and global issues." In recent years, U.S.-Brazil relations have generally been positive despite Brazil's prioritization of strengthening relations with neighboring countries and expanding ties with nontraditional partners in the "developing South." Although some disagreements have emerged over the past two years—such as different policy approaches toward the situations in Honduras and Iran—Brazil and the United States continue to work together on a number of issues, including counternarcotics, counterterrorism, energy security, trade, human rights, HIV/AIDS, and the environment.

Luis Inácio Lula da Silva, known as Lula, of the center-left Workers' Party (PT) has served as Brazil's president since 2003. During his two terms, President Lula has largely maintained orthodox economic policies while expanding the Brazilian state's role in development. Although occasional corruption scandals and inter-party rivalries within his governing coalition have made it difficult to advance portions of his agenda, President Lula has been successful in passing some social security and tax reforms, implementing and expanding a number of social welfare programs, and encouraging public-private partnerships to invest in infrastructure and boost economic growth. He is currently seeking legislative approval for a new regulatory framework to govern the development of the country's substantial offshore oil reserves, but portions of the new framework have been deferred by Congress until after the October 3, 2010 presidential and legislative elections. Lula has maintained high approval ratings (78% in late August 2010) throughout his administration as Brazil has experienced strong economic growth and considerable reductions in poverty.

Brazil's recent economic success and Lula's popularity have benefitted his designated successor, Dilma Rousseff of the Workers' Party. According to recent polls, Rousseff leads José Serra of the centrist Brazilian Social Democratic Party by a substantial margin. While analysts believe that both candidates would largely maintain the Lula Administration's economic and social welfare policies, most believe that Serra's foreign policy would be more likely to align with that of the United States.

The 111<sup>th</sup> Congress has demonstrated interest in several issues in U.S.-Brazil relations. Both houses passed resolutions concerning an international child custody case involving Brazil (H.Res. 125 and S.Res. 37), and legislation related to the case (H.R. 2702) was introduced in the House. Other pieces of legislation concerning Brazil include S.Res. 74, to recognize the importance of the U.S.-Brazil partnership and pursue a bilateral tax treaty; S. 587, to provide \$6 million to expand U.S.-Brazil biofuels cooperation; and H.R. 5439, to offset U.S. contributions to a fund for Brazilian cotton farmers, which was agreed to as a result of a World Trade Organization dispute, by reducing subsidy payments for U.S. cotton farmers.

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

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## Political and Economic Background

Brazil is considered a significant political and economic power in Latin America, and an emerging global leader. A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity—including the vast Amazon rainforest—and significant natural resources. The country's federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil's sizable territory. Brazil is the fifth-most populous country in the world. Its 191 million citizens are primarily of European, African, or mixed African and European descent.<sup>1</sup> With a gross national income (GNI) of \$1.4 trillion in 2008, Brazil's diversified economy is the 10th largest in the world, the largest in Latin America, and one of the largest in the developing world. Per capita GNI is only \$7,350, however, and the country has an unequal income distribution.<sup>2</sup>

Brazil has long held potential to become a world power, but its rise to prominence has been curtailed by setbacks, including 21 years of military rule, political instability, and uneven economic growth. Brazil's military governments ruled from 1964-1985 and, while repressive, were not as brutal as those in other South American countries. Although nominally allowing the judiciary and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. During the first decade after its return to democracy, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office and the other was impeached on corruption charges. Brazil was one of the last countries in the region to move away from state-led development; significant market-oriented policies were not implemented until the government of Fernando Henrique Cardoso (1994-2002).<sup>3</sup>

In 1994, Cardoso, a prominent sociologist of the centrist Brazilian Social Democratic Party (*Partido da Social Democracia Brasileira*, PSDB), was elected by a wide margin over Luis Inácio Lula da Silva of the center-left Workers' Party (*Partido dos Trabalhadores*, PT).<sup>4</sup> Cardoso's election was largely a result of the success of the anti-inflation "Real Plan" that he implemented as Finance Minister. During his first term, Cardoso achieved macroeconomic stability, opened the Brazilian economy to trade and investment, and furthered privatization efforts. Despite these policy victories, Cardoso was unable to enact other political and social changes, such as social security, tax, or judicial reforms. A 1997 constitutional change allowed President Cardoso to run for reelection, and he once again defeated Lula in October 1998.

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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> World Bank, *World Development Report*, 2010.

<sup>3</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.

<sup>4</sup> Although the PSDB was founded as a center-left party and the PT was founded as a leftist party, both have moved toward the ideological center over the past two decades. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

President Cardoso experienced a considerable decline in popularity during 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 Common Market of the South (Mercosur),<sup>5</sup> but fault him for failing to implement more aggressive political and social reforms.<sup>6</sup>

## Political Situation

### The First Lula Administration

Luis Inácio Lula da Silva—known as Lula—was first elected president of Brazil in 2002. The election was Lula's fourth attempt at the presidency as the candidate of the Workers' Party (PT), which he helped found as a metalworker and union leader in the 1980s. During the campaign, Lula moderated his earlier leftist rhetoric, promising to maintain the fiscal and monetary policies associated with Brazil's standing International Monetary Fund (IMF) agreements while continuing to advocate for stronger state support for Brazil's poor. The election proved to be a referendum on President Fernando Henrique Cardoso's eight years in power. High unemployment rates and economic stagnation led voters to reject Cardoso's designated successor, Minister of Health José Serra, and support Lula.

During his first term, President Lula largely maintained the market-oriented economic policies associated with his predecessor, while placing a greater emphasis on reducing poverty. In 2003, the Lula government enacted social security and tax reforms, and committed to a primary budget surplus of 4.25% of GDP. In 2004, Lula implemented a law to allow more private investment in public infrastructure projects. Although the Lula Administration tightly controlled expenditures, it also reorganized and expanded some of the social programs initiated under Cardoso. One conditional cash transfer program, known as *Bolsa Família* (Family Stipend), now provides monthly stipends to some 12.4 million poor families (49 million people) in exchange for compulsory school attendance for all school-age children. Supporters of the program credit it with reducing poverty and weakening clientelist links between the poor and some local politicians while critics argue that it has made poor households too dependent on government services.<sup>7</sup> Despite these initial legislative victories, Lula's agenda stalled toward the end of his first term. Some left-leaning Brazilians criticized Lula for maintaining the orthodox economic policies of the Cardoso Administration and failing to do more to address social issues such as income inequality and land distribution. Criticism of Lula became more widespread with the onset of several corruption scandals involving top PT officials, although a congressional inquiry cleared President Lula of any direct responsibility in April 2006.<sup>8</sup>

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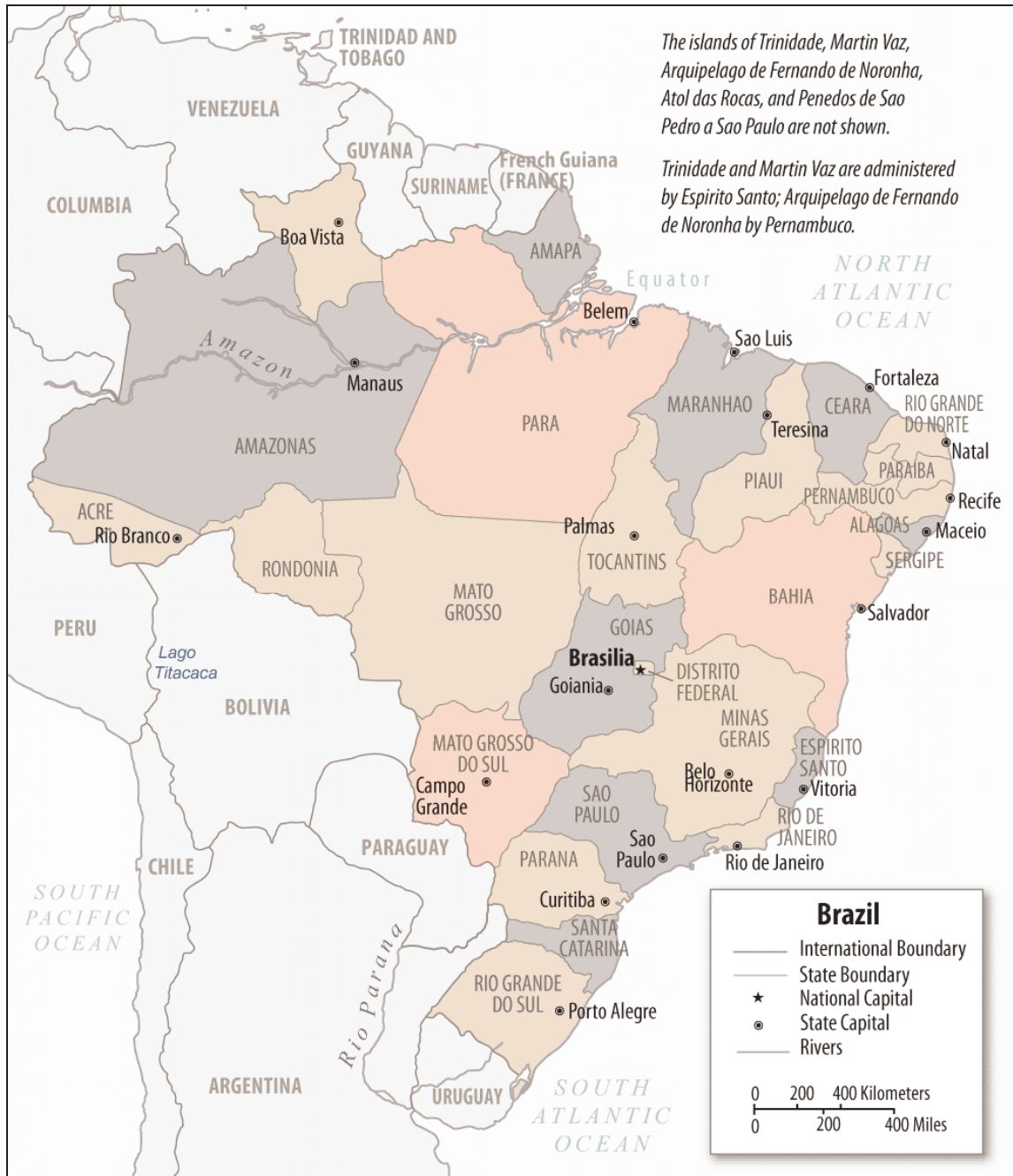
<sup>5</sup> Mercosur is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991. See CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>6</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>7</sup> Anthony Hall, "From *Fome Zero* to *Bolsa Família*: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006; Riorden Roett, "How Reform Has Powered Brazil's Rise," *Current History*, February 2010; "Bolsa Família benefits 49 m Brazilians," *Latin News Daily*, June 1, 2010.

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

Figure I. Map of Brazil



Source: Map Resources. Adapted by CRS Graphics.



## The Second Lula Administration

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

Despite his administration enjoying high approval ratings (78% in late August 2010)<sup>10</sup> and several years of strong economic growth, President Lula's second term has been periodically hindered by corruption scandals and a lack of support from members of his coalition. During his second administration, Lula has expanded social programs like Bolsa Familia, launched new programs like *Minha Casa, Minha Vida* (My House, My Life)—an attempt to increase formal housing for low-income Brazilians, and implemented various economic stimulus measures, such as his Program to Accelerate Growth, which encourages public and private investment in the country's deteriorating infrastructure.<sup>11</sup> Nonetheless, many of President Lula's priorities—including significant tax and political reforms—have stalled in Brazil's Congress, where the PT-allied, but ideologically heterogeneous, Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB) controls the presidencies of both the Senate and Chamber of Deputies. President Lula has done little to challenge the PMDB since the PT's chances of maintaining the presidency in 2010 are likely dependent on a continued alliance.<sup>12</sup> This has also led President Lula to vigorously defend Senate President José Sarney (President of Brazil, 1985-1990) of the PMDB against a number of corruption allegations, ranging from nepotism to abuse of public funds.<sup>13</sup>

With politically sensitive economic and political reforms stalled, President Lula's main legislative priority for 2010 has been the approval of a new regulatory framework that would increase the state's role in the exploitation of Brazil's considerable offshore oil reserves. (For more information, see "Oil" below). Among other provisions, the plan would make state-owned *Petróleo Brasileiro* (Petrobras) the sole operator for all new offshore projects, replace the existing concessionary model with a production sharing regime, guarantee Petrobras a minimum 30% stake in all new joint ventures, create a new public company—Petrosal—to manage the development of the offshore reserves, and create a new social fund overseen by Congress to direct

<sup>9</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>10</sup> Rogerio Jelmayer, "Lula's Hand-Picked Successor Widens Lead in Poll," *Wall Street Journal*, August 28, 2010.

<sup>11</sup> Andrew Downie, "Brazil's Stimulus With a Ceiling (and Four Walls)," *Time*, April 22, 2009; "Brazil: Lula raises subsidies to poorest families," *Oxford Analytica*, August 3, 2009; "Lula's legacy to Brazil," *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

<sup>12</sup> "Power struggle exposes senate wrongdoings," *Latin American Weekly Report*, March 26, 2009; "Brazil: PMDB powerbrokers may hold key in 2010," *Oxford Analytica*, March 30, 2009.

<sup>13</sup> Otávio Cabral, "Os Novos e Bons Companheiros," *Veja*, July 22, 2009.



offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.<sup>14</sup> Although President Lula won legislative approval for the capitalization of Petrobras and creation of Petrosal, Brazil's Congress has deferred final passage of the other items until after the October 2010 presidential and legislative elections.<sup>15</sup>

## October 2010 Elections

Presidential, gubernatorial, and state and federal legislative elections will be held on October 3, 2010. While some of President Lula's supporters suggested the possibility of amending the constitution to allow him to run for a third term, Lula has stressed the importance of alternation of power, stating unequivocally that "Brazil should not have a third mandate."<sup>16</sup> The top candidates to replace him are Dilma Rousseff of the PT and José Serra of the PSDB. Rousseff has never run for political office but served as Minister of Mines and Energy from 2003-2005 and Minister of the Presidency from 2005-2010, before resigning to seek the presidency. She has the support of six political parties and her running-mate is a member of the PMDB. Serra served as Health Minister under President Cardoso, was the PSDB's presidential nominee in 2002, and was the Governor of São Paulo state until resigning to campaign. He is heading up a five-party coalition with a running-mate from the conservative Democrats (*Democratas*, Dem) party. Seven other candidates are also running, although former Lula Administration Environment Minister Marina Silva of the Green Party (*Partido Verde*, PV) is the only one that has registered much support.

Analysts believe that both Serra and Rousseff would maintain broad policy continuity, although Serra would likely diverge from Lula on foreign affairs. Rousseff would maintain generally orthodox economic policies, like the country's 3.3% of GDP primary surplus target, while embracing the PT's belief in a strong state role in development by continuing the Lula Administration's Program to Accelerate Growth and implementing its proposed new regulatory framework for offshore oil reserves. Analysts believe Serra, who also supports an "activist, muscular state," would be more likely to restrain spending growth and maintain the current balance between the state and private enterprise in the oil sector. Both candidates have pledged to maintain social programs like Bolsa Familia.<sup>17</sup> On foreign policy, both candidates would foster Brazil's expanding role on the world stage, with Rousseff likely to continue Lula's focus on south-south cooperation and Serra's policies more likely to align with those of the United States while still maintaining Brazil's traditional independence.<sup>18</sup>

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<sup>14</sup> "Brazil's Oil Law still awaiting approval," *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

<sup>15</sup> "Analysis-Election puts Brazil's oil overhaul on hold," *Reuters*, July 12, 2010; "Brazil's Lula signs law creating new oil company," *Reuters*, August 2, 2010.

<sup>16</sup> "Lula speaks out on third term," *Latin News Daily*, June 3, 2009.

<sup>17</sup> Vera Rosa, "Dilma defenderá Estado forte para embalar 'novo desenvolvimentismo'," *Estado de São Paulo*, December 27, 2009; "Brazil: Candidates moot fiscal reform," *Latin American Regional Report: Brazil & Southern Cone*, May 2010; "Country Report: Brazil," *Economist Intelligence Unit*, August 2010.

<sup>18</sup> "Brazil: Foreign policy will test Lula's successor," *Oxford Analytica*, April 23, 2010; "Brazil: Serra takes issue with Lula's foreign policy," *Latin American Weekly Report*, June 3, 2010; "Country Report: Brazil," *Economist Intelligence Unit*, August 2010.

According to a poll from late August 2010, Rousseff is leading Serra 51% to 27%; Silva has the support of 9% of voters.<sup>19</sup> If no candidate attains an absolute majority in the first round, a runoff election will be held between the top two candidates on October 31, 2010.

## Economic Conditions

Over the past 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 orthodox economic policies, even surpassing the IMF's fiscal and monetary targets. As a result, Brazil began to experience some benefits, including lower inflation and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule, and in 2009, Brazil became a net IMF creditor.

Fiscal discipline has been accompanied by record exports. Brazil is a major exporter of agricultural and industrial products and plays a significant role in the world trading system. Since 2002, Brazil has been the world's third-largest exporter of agricultural products after the United States and the European Union. Brazil is a leading exporter of coffee, orange juice, sugar, chicken, beef, soy, and tobacco. Demand for Brazilian commodity exports in Asia is strong, as is global demand for Brazil's manufactured goods and services. Brazil is the world's second-largest producer of ethanol (after the United States), and its state-run oil company, Petrobras, is a leader in deep-water oil drilling. In 2009, the value of Brazil's exports reached some \$153 billion, and the country's trade surplus was over \$25 billion.<sup>20</sup>

## Economic Challenges

### Slow Growth Rate

One of President Lula's goals for his second term was to boost Brazil's lagging economic growth rate, which averaged just 2.7% between 2000 and 2006. In 2007, President Lula launched a \$284.5 billion<sup>21</sup> two-year Program to Accelerate Growth (*Programa de Aceleração do Crescimento*, PAC), with the intention of increasing Brazil's growth rate to 5% per year through public and private investment in infrastructure. The Brazilian federal government directly financed just 14% of the PAC, but provided incentives such as tax breaks and a simplified regulatory framework in order to spur additional investment. State-run companies financed 35.5% of the PAC, state and private banks financed 32.5%, and the private sector financed 18%.<sup>22</sup> President Lula launched a second phase of the PAC in March 2010, although just 40% of stage one PAC projects had been completed at that time according to government estimates. The second stage of the PAC contemplates \$541.3 billion in public and private investment between 2011 and 2014 and \$356.8 billion<sup>23</sup> after 2014. The largest share of the funds would go to the energy sector

<sup>19</sup> Rogerio Jelmayer, "Lula's Hand-Picked Successor Widens Lead in Poll," *Wall Street Journal*, August 28, 2010.

<sup>20</sup> Brazilian Foreign Trade Secretariat data made available by *Global Trade Atlas*, February 2010.

<sup>21</sup> Figure based on the August 31, 2010 currency conversion rate of 1 Brazilian Real: 0.5645 U.S. Dollars

<sup>22</sup> "Lula's legacy to Brazil," *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

<sup>23</sup> Figures based on the August 31, 2010 currency conversion rate of 1 Brazilian Real: 0.5645 U.S. Dollars

while low-income housing and the transportation sector would also receive significant portions.<sup>24</sup> Brazil's economy grew 6.1% in 2007 and 5.1% in 2008, before contracting 0.2% in 2009 as a result of the global financial crisis.<sup>25</sup> (See discussion under "Global Financial Crisis" below).

Although the PAC appears to have been at least somewhat successful at boosting short-term economic growth, some analysts have identified several factors that could constrain Brazil's long-term growth potential. These include a sizeable public debt burden, significant government spending, high taxes and interest rates, low investment and savings rates, and an unwieldy public pension system that a 2006 report by the Organization for Economic Co-operation and Development (OECD) asserted is a significant obstacle to sustained economic growth.<sup>26</sup> Despite his popularity, President Lula has thus far not elected to use his political capital to enact the structural reforms needed to address these issues.

## Global Financial Crisis

After experiencing strong growth in 2007 and most of 2008, the Brazilian economy was hit by the global financial crisis in late 2008 and 2009. Brazil took several steps to minimize the impact of the crisis. The government injected at least \$100 billion of additional liquidity into the local economy, provided support packages to productive sectors, and cut the key interest rate.<sup>27</sup> President Lula also acted to maintain domestic consumption in hopes of partially offsetting declines in global demand. The government mandated an above-inflation increase to the minimum wage for 2009, provided temporary tax relief, announced its intention to increase investments in the PAC, and maintained its spending on social programs like Bolsa Familia.<sup>28</sup> The Brazilian government's actions appear to have been reasonably successful. Brazil was one of the first Latin American nations to emerge from recession and the economy contracted by just 0.2% in 2009. The country has continued to rebound strongly in 2010; analysts now expect real GDP to grow by 7.8%, even as the Brazilian government removes its stimulus measures.<sup>29</sup>

## 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 one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world. The wealthiest 5% of the population account for some 40% of the country's wealth.<sup>30</sup> One major cause of poverty and inequality in Brazil has been the extreme concentration of land

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<sup>24</sup> "Lula's legacy to Brazil," *Latin American Regional Report: Brazil & Southern Cone*, April 2010.

<sup>25</sup> "Country Report: Brazil," *Economist Intelligence Unit*, August 2010.

<sup>26</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>27</sup> "Will the economy grow in 2009?" *Latin American Economy & Business*, February 2009; "Brazil economy: Bottoming out?" *Economist Intelligence Unit*, May 7, 2009.

<sup>28</sup> "Will the economy grow in 2009?" *Latin American Economy & Business*, February 2009; Tax Relief for the Middle Classes," *Latin American Weekly Report*, December 18, 2008.

<sup>29</sup> "Late in, first out," *The Economist*, September 14, 2009; "Country Report: Brazil," *Economist Intelligence Unit*, August 2010.

<sup>30</sup> "Brazil: Middle class expands but inequality persists," *Oxford Analytica*, February 8, 2010.

ownership among the country's elites. A 2004 study found that 1% of the Brazilian population controlled 45% of the farmland.<sup>31</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 50.6% of the country's population but constitute 67% of the poor.<sup>32</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 had spent the same level or more of public spending on social programs as other countries with similar income levels, it had not achieved the same social indicators as those countries.<sup>33</sup> There has been more recent evidence, however, that the Lula government's Bolsa Familia 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>34</sup> Since 2003, the proportion of poor has fallen from 33.2% to 22.9% of the population, and 30 million Brazilians have moved into the middle class.<sup>35</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>36</sup> Brazil engages in multilateral diplomacy through a variety of sub-regional organizations—including Mercosur, the Union of South American Nations (UNASUR), and the Rio Group—as well as through the Organization of America States (OAS) and the United Nations.

## Regional Integration and Leadership

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

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<sup>31</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>32</sup> Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010.

<sup>33</sup> Organization for Economic Cooperation and Development, *Economic Survey of Brazil 2005*, March 2005.

<sup>34</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; United Nations Development Program, "Human Development Report 2007/8," November 2007.

<sup>35</sup> The Brazilian government breaks the population into five income classes: A, B, C, D, and E. Those in the "C" class, who earn between \$900 and \$2,000 per month, now account for half of the Brazilian population. "Brazil: Poverty falls, but regional inequities remain," *Oxford Analytica*, June 21, 2010.

<sup>36</sup> Georges D. Landau, "The Decision making Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

## Common Market of the South

Brazil joined with Argentina, Paraguay, and Uruguay to establish the Common Market of the South (Mercosur)<sup>37</sup> in 1991. The organization was originally created in order to promote economic integration and political cooperation, however, its progress in terms of economic integration has been quite limited. The pact calls for an incremental path to full integration, yet only a limited customs union has been achieved in its nearly 20 year existence. Likewise, Mercosur's internal resolution process has proved unable to resolve disputes between members, and the group has not addressed trade asymmetries.<sup>38</sup> Although a common customs code that provides for the elimination of double tariffs on non-Mercosur goods transported between countries within the bloc was finally agreed to in August 2010, it still needs to be ratified by the legislatures of each of the members.<sup>39</sup>

Despite its lack of economic integration, Mercosur has been an influential body. Since its formation, it has greatly expanded its geographic reach. Chile, Mexico, and the members of the Andean Community of Nations (CAN)—Bolivia, Colombia, Ecuador, Peru, and Venezuela—have all become associate members.<sup>40</sup> Venezuela will become the fifth full member of Mercosur once all four founding nations ratify its inclusion; Paraguay is the only country yet to ratify the accession.<sup>41</sup> Mercosur has also played an important role on regional issues. For example, its opposition to the Free Trade Area of the Americas (FTAA) was the principle reason why the agreement stalled.

## Union of South American Nations and other Regional Organizations

Even though Mercosur has largely abandoned its attempts to deepen integration among its members, Brazil has continued to push for broader regional integration. The 2004 trade agreement that provided CAN nations with associate membership in Mercosur led to the creation of the South American Community of Nations. In May 2008, this was reformulated as the Union of South American Nations (UNASUR) in a pact that included all 12 independent countries of South America. Brazil has also pushed for the incorporation of more countries into the Rio Group, a political forum with no formal institutions that includes a variety of Latin American and Caribbean countries.<sup>42</sup> Most recently, Brazil has supported the creation of a new Community of Latin American and Caribbean States, which would bring together all of the countries of the hemisphere except Canada and the United States.<sup>43</sup>

<sup>37</sup> For more information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>38</sup> "Deathknell Sounds," *Latin American Regional Report: Brazil & Southern Cone*, January 2009.

<sup>39</sup> "Mercosur wraps up successful summit," *EFE News Service*, August 3, 2010; "Las reglas comerciales comunes tendran que ser ratificadas por el Congreso de cada socio; Aprobaron el Código que regirá el comercio dentro del Mercosur," *Clarín*, August 4, 2010.

<sup>40</sup> Associate members have no voting rights and need not observe Mercosur's common external tariff.

<sup>41</sup> Maria Luiza Rabello, "Brazil Senators Approve Venezuela Entry into Mercosur," *Bloomberg*, December 15, 2009.

<sup>42</sup> The Rio Group was created in 1986 when the Contadora Group and the Contadora Support Group merged. Both groups had favored a negotiated solution to the conflicts in Central America in the 1980s, rather than the U.S. push for a military solution.

<sup>43</sup> "Region: New body to represent the region, sans US," *Latin American Security & Strategic Review*, February 2010.



All of these organizations contribute to the region's increasing independence, however, their capacities are limited. Although Unasur played an important role in resolving a political conflict in Bolivia in late 2008, it has shown a limited capacity to mediate regional differences since then.<sup>44</sup> Likewise, the Rio Group was able to reduce regional tensions following a Colombian airstrike of a Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*, FARC) camp inside Ecuador in March 2008, but it lacks any of the formal institutions and mechanisms possessed by the OAS. Nonetheless, these regional organizations provide Brazil with forums in which it can engage in multilateral diplomacy, develop consensus on regional issues, and peacefully resolve disputes without having to turn to extra-regional powers, such as the United States.

## Maintenance of Peace and Stability

In addition to supporting the work of multilateral organizations, Brazil has used bilateral diplomacy to encourage the peaceful resolution of conflicts and maintain stability in the region. Brazil has commanded the U.N. Stabilization Mission in Haiti (MINUSTAH) since 2004. It maintains the largest number of peacekeeping troops on the ground, and doubled its forces there following the January 2010 earthquake.<sup>45</sup> Brazil has also worked with Colombia to end its long-running conflict with the FARC. It has provided logistical assistance to the Colombian government in obtaining the release of political hostages held by the FARC, called on the FARC to end its armed rebellion and assimilate into the Colombian political system, and signed a bilateral agreement with Colombia to allow cross-border privileges in hot pursuit of the FARC.<sup>46</sup> Additionally, Brazil used bilateral diplomacy to convince each of the 12 member nations of Unasur to sign onto its South American Defense Council in March 2009. The Council is designed to safeguard peace and security by boosting regional cooperation on defense and national security policies.<sup>47</sup>

## Expansion of Influence

While Brazil has consolidated its power within South America, it has not traditionally exerted much influence in Central America or the Caribbean. In recent years, Brazilian government and business officials have sought to change this by expanding the country's political and commercial interests in the broader region. One initiative has involved the use of so-called "ethanol diplomacy," in which Brazil has signed bio-fuels partnership agreements with several Central American and Caribbean countries that would otherwise be dependent on expensive oil imports.<sup>48</sup> Brazil has also become a regional observer of the Central American Integration System (SICA) and promoted a trade agreement between SICA and Mercosur.<sup>49</sup> Moreover, following the June

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<sup>44</sup> "Latin America: Regional tensions challenge UNASUR," *Oxford Analytica*, August 21, 2009.

<sup>45</sup> Fernanda Odilla, Simone Iglesias & Johanna Nublat, "Brasil vai dobrar efetivo militar no Haiti," *Folha de São Paulo*, January 21, 2010.

<sup>46</sup> "Agradece Colombia a Brasil apoyo en liberación de rehenes," *Agencia Mexicana de Noticias*, February 3, 2009; Stan Lehman, "Lula: FARC debe hacer juego democrático y liberar rehenes," *Associated Press*, December 5, 2008; "Brazil Colombia: A Deal Signals Strategic Cooperation," *Stratfor*, March 12, 2009.

<sup>47</sup> "South American Defence Council," *Latin American Regional Report: Brazil & Southern Cone*, April 2009.

<sup>48</sup> "Chávez, Lula Promote Competing Visions," *Miami Herald*, August 10, 2007.

<sup>49</sup> Andres Oppenheimer, "Brazil stretching clout to Central America," *Miami Herald*, June 7, 2009; "Brazil is Challenging Mexico and U.S. Domination of Isthmus," *Latin America Data Base NotiSur*, June 11, 2009.

2009 ouster of Honduran President Manuel Zelaya, Brazil was vocal in advocating for Zelaya's reinstatement and allowed him to take refuge in its embassy. In doing so, it took on a much larger than expected role given its typical noninterventionist foreign policy.<sup>50</sup> Despite these growing ties to Central American and the Caribbean, analysts assert that Brazil's influence remains mostly confined to South America for the time being.<sup>51</sup>

## Regional Backlash

Brazil's expanding influence has generated some backlash in the region. Brazil was caught off guard by Bolivia's May 2006 nationalization of the country's natural gas industry as President Lula had hoped that Petrobras' investments in Bolivia would prevent such an action.<sup>52</sup> Paraguay has also confronted Brazil over energy issues, demanding a greater price for the electricity generated by the countries' joint hydroelectric dam.<sup>53</sup> Venezuela—which has sought to increase its regional influence in recent years through the provision of discounted oil—has criticized Brazil's promotion of biofuels, charging that biofuels were the principal cause of the recent food crisis. While Brazil has thus far been able to maintain constructive relations with its South American neighbors, reaching mutually acceptable compromises with Bolivia and Paraguay while avoiding open confrontations with Venezuela, some analysts assert that such conflicts are the result of a growing resentment in Latin America over Brazil's expanding influence. They believe similar conflicts are likely to continue as Brazil's economic and geopolitical power grows.<sup>54</sup>

## Emerging Global Role

As the country has consolidated its power in South America and extended its influence to the broader region, Brazil has also become increasingly prominent on the world stage. Brazil's global reach is largely the result of its fast-growing economy, which is the tenth largest in the world. The country is rich in natural resources and possesses a dynamic agricultural sector. Brazil is the top exporter of coffee, orange juice, sugar, chicken, beef, and soy; the second largest producer of ethanol; and the third largest exporter of agricultural products. Brazil also has a relatively balanced trade regime: Its main trading partners in 2008 were the European Union (24% of exports, 22% of imports), the United States (14% of exports, 15% of imports), China (8% of exports, 12% of imports), and its neighbors in Mercosur (11% of exports, 9% of imports).<sup>55</sup> These factors, in addition to President Lula's focus on improving relations with other leaders of the developing "South," have made Brazil one of the most important leaders of the G-20 group of

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<sup>50</sup> Jens Glüsin, "South America's Gentle Giant – Brazil Flexes Muscles Over Honduras Crisis," *Der Spiegel*, October 9, 2009.

<sup>51</sup> Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010.

<sup>52</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; "New chapter in gas dispute with Bolivia," *Latin News Daily*, March 30, 2009.

<sup>53</sup> Joshua Goodman, "Paraguay Pushes 'Imperialist' Brazil on Hydro Power: Week Ahead," *Bloomberg*, July 20, 2009.

<sup>54</sup> Miguel Diaz & Paulo Roberto Almeida, "Brazil's Candidacy for Major Power Status," *Stanley Foundation*, November 2008; Raúl Zibechi, "Is Brazil Creating Its Own 'Backyard'?" *Center for International Policy Americas Program*, February 3, 2009.

<sup>55</sup> Mercosur trade statistics only include the other full members of the trade bloc: Argentina, Uruguay, and Paraguay.



emerging nations and a top player in the Doha Round of World Trade Organization (WTO) negotiations.<sup>56</sup>

In recent years, President Lula has utilized his country's growing economic clout to assert Brazilian influence in other global matters. In the aftermath of the global financial crisis, Brazil became the foremost proponent of greater international financial regulation and a more democratic global financial system.<sup>57</sup> Brazil also played an active role at the 2009 U.N. Framework Convention on Climate Change Summit in Copenhagen, calling on developed countries to agree to more substantial green house gas emission reductions, proposing a fund to help poor nations cope with the effects of climate change, and helping craft the summit's last-minute non-binding agreement.<sup>58</sup> Additionally, Brazil has suggested that it might be able to act as a mediator in the Middle East, worked with Turkey to craft a deal concerning Iran's nuclear program, and has pushed for reform of, and a permanent seat on, the U.N. Security Council.<sup>59</sup>

As Brazil has taken on a larger role in global affairs, its foreign policy has been subject to a number of critiques. Some domestic observers have criticized Brazilian foreign policy under Lula as being overly ideological. They have accused President Lula of catering to the demands of regional leftists and have suggested that his international initiatives are designed to maintain support among the base of the Workers' Party, which is disillusioned with his Administration's market-friendly economic policies.<sup>60</sup> Likewise, Roberto Abdenur, the former Brazilian Ambassador to Washington, has asserted that the "south-south" approach of the Brazilian Foreign Ministry indoctrinates Brazilian diplomats with "anti-imperialist" and "anti-American" attitudes.<sup>61</sup> International observers have criticized Brazil for not speaking out on human rights violations and undemocratic practices.<sup>62</sup> The country's acceptance of the 2009 Iranian elections and its opposition to sanctions on Iran over its nuclear program have been particular baffling to many in the international community. Brazilian officials maintain that the country views confrontational policies as counterproductive and prefers to maintain friendly relations with all nations in hopes of fostering negotiated solutions to disagreements.<sup>63</sup>

## Relations with the United States

Relations between the United States and Brazil may be characterized as generally friendly despite a number of disagreements in recent years. The United States increasingly regards Brazil as a significant power, especially in its role as a stabilizing force in Latin America. The Obama

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<sup>56</sup> Peter Hakim, "Rising Brazil: the Choices Ahead," *Cuadernos de la Fundacion M.Botin*, February 22, 2010; "Brazil takes off," *The Economist*, November 12, 2009.

<sup>57</sup> "Brasil defenderá mais regulação no G-20," *O Globo* (Brazil), August 6, 2009.

<sup>58</sup> Gaurav Singh, "China, India, Brazil Commit to Meet Copenhagen Accord Deadline," *Bloomberg*, January 25, 2010.

<sup>59</sup> "Brazilian minister on Middle East role," *BBC Monitoring*, January 4, 2010; Erich Follath & Jens Glüsing, "Iran Nuclear Deal: Brazil's Lula Vaults into Big League of World Diplomacy," *Der Spiegel*, May 25, 2010.

<sup>60</sup> "Lula criticised for 'partisan' foreign policy," *Latin American Weekly Report*, January 22, 2009.

<sup>61</sup> Otávio Cabral, "Nem na Ditadura," *Veja*, February 7, 2007.

<sup>62</sup> "Brazil: Diplomacy criticised for undermining human rights," *Latin American Weekly Report*, July 16, 2009; "Whose side is Brazil on?," *Economist*, August 13, 2009.

<sup>63</sup> Bill Varner, "Brazil Resists Push for Tougher Sanctions on Iran, Envoy Says," *Bloomberg*, February 17, 2010; Andres Oppenheimer, "Hubris is behind Brazil's ties with Iran," *Miami Herald*, February 21, 2010; "Brazil asserts its autonomy before Clinton," *Latin News Daily*, March 4, 2010.

Administration's National Security Strategy states that the United States "welcome[s] Brazil's leadership and seek[s] to move beyond dated North-South divisions to pursue progress on bilateral, hemispheric, and global issues."<sup>64</sup> Brazil and the United States have worked closely on a wide range of issues, from promoting bio-fuels development in the Western Hemisphere and Africa (see "Ethanol and Other Biofuels") to providing security and fostering development in Haiti. Likewise, Brazil-U.S. cooperation has increased in recent years, as reflected in the continuing high-level contacts between the two governments, particularly on energy issues.

Although Brazil and the United States share a number of common goals, Brazil's independent approach to foreign policy has led to periodic disputes with the United States on trade and political matters. These include how (and whether) to create a Free Trade Area of the Americas and Brazil's vocal opposition to the war in Iraq and the U.S. embargo of Cuba. Despite President Lula's friendly relationship with President Obama, a number of differences between Brazil and the United States have emerged over the past two years. In addition to ongoing disputes over the U.S. tariff on Brazilian ethanol and the Doha Round of WTO negotiations, Brazil criticized the United States for failing to take a stronger stance on the political crisis in Honduras and reacted negatively to an agreement between the United States and Colombia to provide the United States access to seven Colombian military bases.<sup>65</sup>

Most recently, the Lula and Obama Administrations have clashed over policy toward Iran. In May 2010, President Lula worked with his Turkish counterpart, Prime Minister Erdoğan, to negotiate a nuclear swap deal with Iran that was similar to a deal put forward by the International Atomic Energy Agency (IAEA) in October 2009. The Brazilians saw the agreement as a confidence-building measure to bring Iran back to the negotiating table; however, it was immediately dismissed by the Obama Administration, which saw the agreement as a delaying tactic, and decided to push ahead with sanctions. Brazil then voted against the U.N. Security Council resolution to impose sanctions, saying the council had "lost a historic opportunity to peacefully negotiate the Iranian nuclear program."<sup>66</sup>

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. Brazil received \$21.5 million in U.S. aid in FY2009, will receive an estimated \$25.1 million in FY2010, and would receive \$20.9 million under the Obama Administration's request for FY2011. U.S. assistance priorities in Brazil include supporting environmental programs and the strengthening of local capacity to address threats to the Amazon, promoting renewable energy and energy efficiency to mitigate climate change, strengthening the professionalism and peacekeeping capabilities of the Brazilian military, and reducing the transmission of communicable diseases.<sup>67</sup>

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<sup>64</sup> White House, *National Security Strategy*, May 2010, p. 44.

<sup>65</sup> "Brazil-US rows building over Colombia, biofuel, trade: FM" *Agence France Presse*, August 2, 2009; "Brasil espera una actitud más firme de EEUU contra el golpe," *EFE News Service*, August 4, 2009.

<sup>66</sup> Trita Parsi, "The Turkey-Brazil-Iran Deal: Can Washington take 'yes' for an answer?" *Foreign Policy*, May 17, 2010; "Unexpected US opposition overshadows Lula's successful Iran nuclear deal," *Latin American Security & Strategic Review*, May 2010; "Brazil's Lula says UN sanctions a mistake," *Latin News Daily*, June 10, 2010.

<sup>67</sup> U.S. State Department, *FY2011 Congressional Budget Justification for Foreign Operations*, February 1, 2010.

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

As noted above, the Obama Administration's National Security Strategy recognizes Brazil as an emerging center of influence whose cooperation should be sought when addressing regional and global problems. Current issues of concern to both Brazil and the United States include counternarcotics and counterterrorism efforts, energy security, trade, human rights, the fight against HIV/AIDS, and the environment.

### Counternarcotics

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

With U.S. support, Brazil has taken several steps to improve its counternarcotics capabilities. In 2004, Brazil implemented an Air Bridge Denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an anti-drug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also worked with its neighbors to construct Joint Intelligence Centers at strategic points along its borders and invested in a sensor and radar project called the Amazon Vigilance System in an attempt to control illicit activity in its Amazon region. In 2009, Brazil's federal police captured 18.9 metric tons of cocaine, 1.4 metric tons of cocaine base, 513 kilograms of crack cocaine, 150.6 metric tons of marijuana, 3.3 kilograms of heroin, and 183.3 tons of precursor chemicals.<sup>68</sup>

Brazil received \$1 million in U.S. counternarcotics assistance in FY2009, is receiving \$1 million in FY2010, and would receive an estimated \$1 million in FY2011 under the Obama Administration's request.<sup>69</sup> U.S. counternarcotics assistance includes training for Brazil's federal police, support for interdiction programs at Brazil's ports, and expanding the capabilities of special investigations units.

### Counterterrorism and the Tri-Border Area<sup>70</sup>

The Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay has long been used for arms smuggling, money laundering, and other illicit purposes. According to the State Department Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds through illicit activities and from sympathizers in the sizable Middle Eastern communities in the region. Indeed, reports have indicated that Hezbollah earns over \$10 million per year from criminal activities in the TBA.<sup>71</sup> Although it has been reported that al Qaeda's

<sup>68</sup> U.S. Department of State, *International Narcotics Control Strategy Report 2010, Volume 1*, March 1, 2010.

<sup>69</sup> U.S. State Department, *FY2011 Congressional Budget Justification for Foreign Operations*, February 1, 2010.

<sup>70</sup> For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

<sup>71</sup> Alain Rodier, "Notes D'Actualité N° 168: Les Trafics de Drogue du Hezbollah en Amérique Latine," *Centre* (continued...)

former operations chief, Khalid Shaikh Mohammed, lived in the Brazilian TBA city of Foz de Iguazu in 1995 and Brazilian authorities arrested Ali al-Mahdi Ibrahim—who was wanted by Egypt for his alleged role in the 1997 massacre of tourists at Luxor—in the TBA in 2003, the State Department report states that there have been no corroborated reports that any Islamic groups have an operational presence in the area.<sup>72</sup> The United States joined with the countries of the TBA in the “3+1 Group on Tri-Border Area Security” in 2002 and the group built a Joint Intelligence Center to combat trans-border criminal organizations in the TBA in 2007.

The United States has also worked bilaterally with Brazil to improve its counterterrorism capabilities. In addition to providing counterterrorism training, the United States has worked with Brazil to implement the Container Security Initiative (CSI) at the port of Santos. While the State Department Country Reports on Terrorism lauded the Brazilian government for a number of counterterrorism actions, it also noted that Brazil’s overall commitment to combating terrorism was undermined by the government’s failure to strengthen its legal counterterrorism framework by passing long-delayed anti-money laundering and counterterrorism bills.<sup>73</sup> Brazil, like many Latin American nations, has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as terrorism by repressive military regimes in the past.<sup>74</sup> Nonetheless, some Brazilian officials continue to push for antiterrorism legislation, asserting that the country will face new threats as a result of hosting the 2014 World Cup and the 2016 Olympics.<sup>75</sup>

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

## Energy Security

In the last few years, there has been significant congressional interest in issues related to Western Hemisphere energy security. Brazil is widely regarded as a world leader in energy policy for successfully reducing its reliance on foreign oil through increased domestic production and the development of alternative energy resources. In addition to being the world’s second largest producer of ethanol, Brazil currently generates over 85% of its electricity through hydropower.<sup>76</sup>

(...continued)

*Français de Recherche sur le Renseignement*, April 14, 2009.

<sup>72</sup> “Latin America: A Safe Haven for Al Qaeda?” *STRATFOR*, September 4, 2003; U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

<sup>73</sup> U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism*, August 5, 2010.

<sup>74</sup> “Anti-terrorism law project scrapped,” *Latin American Security & Strategic Review*, January 2008.

<sup>75</sup> Guila Flint, “Jobim alerta para ameaça de atentados e diz que país deve se preparar para problemas durante Copa e Olimpíadas,” *O Globo* (Brazil), January 26, 2010.

<sup>76</sup> “Brazil: Hydrocarbons potential poses major challenges,” *Oxford Analytica*, November 20, 2007.

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>77</sup>

### Ethanol and Other Biofuels<sup>78</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>79</sup>

Since March 2007, the United States and Brazil have moved forward on all three facets of the agreement. U.S. and Brazilian consultants have carried out feasibility studies that identified short-term technical assistance opportunities in Haiti, the Dominican Republic, and El Salvador. On November 20, 2008, the United States and Brazil announced an agreement to expand their biofuels cooperation and form new partnerships with Guatemala, Honduras, Jamaica, Guinea-Bissau, and Senegal.<sup>80</sup> The United States and Brazil are also working with other members of the International Biofuels Forum (IBF) to make biofuels standards and codes more uniform. In March 2009, the Western Hemisphere Energy Compact (S. 587, Lugar) was introduced. The legislation would provide \$6 million to expand U.S.-Brazil biofuels cooperation.<sup>81</sup>

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>82</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. Several bills were introduced in the 110<sup>th</sup> Congress that would have eliminated or adjusted the ethanol tariff.

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<sup>77</sup> "Brazil's Now a Hot Commodity," *Los Angeles Times*, January 3, 2008.

<sup>78</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>79</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.

<sup>80</sup> U.S. Department of State, Office of the Spokesman, "Joint Statement by the United States and Brazil Announcing the Expansion of Cooperation on Biofuels to Advance Energy Security and Promote Sustainable Development," November 20, 2008.

<sup>81</sup> Senator Lugar had introduced a similar measure in the 110<sup>th</sup> Congress, S. 1007, reported out of the Senate Foreign Relations Committee on September 23, 2008.

<sup>82</sup> For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.



## Nuclear Energy

Between the mid-1970s and the mid-1980s, Brazil's military government sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. Brazil's 1988 constitution limits nuclear activity to peaceful purposes, however, and in 1991, Brazil and Argentina reached an agreement not to pursue nuclear weapons. Although Brazil subsequently joined the Nuclear Nonproliferation Treaty (NPT) and a number of other multilateral nonproliferation regimes, some international observers became concerned when Brazil commissioned a uranium enrichment plant in 2004 and refused to give IAEA inspectors full access to the centrifuge plant in 2005. The Brazilian government maintained that it needed to enrich uranium in order to produce its own fuel, and it justified its refusal to give IAEA inspectors access by citing security concerns over the proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.<sup>83</sup>

President Lula has stated Brazil's intention to spend \$540 million over the next eight years to build a third nuclear power plant. In September 2008, the Brazilian Minister for Energy and Mining announced plans to build 60 new nuclear energy plants over the next 50 years. The Minister claimed that an expansion of nuclear power would be the only way that Brazil would be able to meet the energy needs of its growing population while avoiding massive carbon emissions through the burning of fossil fuels.<sup>84</sup>

## Oil

The recent discovery of substantial oil fields in the Santos Basin, which extends 500 miles along the Brazilian coast, has the potential to turn Brazil into a major oil and gas producer and an important source of energy for the United States. The Tupi field, discovered in November 2007, has confirmed oil reserves of between five and eight billion barrels, and it is estimated that the entire Santos Basin could hold up to 50 billion barrels of oil. President Lula asserts that the oil fields have the potential to transform Brazil and improve living conditions for its people. He intends to implement a new regulatory framework, which will increase the state's role in the exploitation of the reserves while investing the profits in a new social fund for education, infrastructure, science and technology, and poverty reduction.<sup>85</sup>

Exploiting the new fields will be difficult and costly, however, as the oil is located in the so-called "pre-salt" layer, beneath layers of rock and salt up to 7,000 meters below the seabed. Brazil's state-owned oil company, Petrobras, has announced that it will need \$270 billion in investment over the next 10 years to develop the reserves.<sup>86</sup> Some foreign investors have questioned whether the company will be able to access sufficient finance given the Brazilian government's intentions

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<sup>83</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>84</sup> "Brazil's Nuclear Ambitions Expand," *Latin American Regional Report: Brazil & Southern Cone*, November 2008.

<sup>85</sup> "Brazil's Oil Law still awaiting approval," *Latin American Regional Report: Brazil & Southern Cone*, February 2010.

<sup>86</sup> "Brazil needs \$270 bln over 10-yrs for deepwater oil," *Reuters*, March 19, 2009.

to implement a new regulatory framework and increased concerns about offshore oil drilling as a result of the recent BP oil spill in the Gulf of Mexico.<sup>87</sup> Nonetheless, Petrobras secured a record \$41.5 billion from financial markets in 2009, including a preliminary commitment of \$2 billion from the Export-Import Bank of the United States, \$12.5 billion over 20 years from Brazil's state-owned National Bank of Economic and Social Development (BNDES), and \$10 billion over 10 years from China in exchange for guaranteed oil deliveries of 150,000 barrels per day (bpd) in 2009 and 200,000 bpd for the next decade.<sup>88</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 sought to strengthen Mercosur and establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosur-European Union free trade agreement. The United States has been actively involved in the Doha negotiations and, until late 2005, pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA). Since negotiations for the FTAA have been largely abandoned, the United States has continued to sign bilateral and subregional agreements with countries throughout Latin America. Bilateral trade between the United States and Brazil totaled \$46.2 billion in 2009, a nearly 23% decline from 2008. U.S. exports to Brazil amounted to \$26.2 billion while U.S. imports from Brazil amounted to \$20.1 billion.<sup>89</sup>

## Doha Round of the World Trade Organization Talks<sup>90</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. In recent years, trade ministers have repeatedly failed to reach an agreement to conclude the Doha round and the U.S. negotiating position remains a source of contention with Brazil.<sup>91</sup>

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<sup>87</sup> "Brazil's Golden Times Start to Roll," *Latin News Daily*, September 3, 2008; "Hydrocarbons Potential Poses Major Challenges," *Oxford Analytica*, November, 20, 2007; "Brazil industry: Petrobras under pressure," *Economist Intelligence Unit*, August 26, 2010.

<sup>88</sup> Export-Import Bank of the United States, *Summary of Minutes of Board of Directors*, April 14, 2009; "Brazil: Da Silva Goes to China," *Stratfor*, May 19, 2009; "China's Sinopec negotiating first oil exploration deal in Brazil," *EFE News Service*, June 29, 2009; "Brazil industry: Petrobras under pressure," *Economist Intelligence Unit*, August 26, 2010.

<sup>89</sup> U.S. Department of Commerce statistics, as presented by *Global Trade Atlas*, February 2010.

<sup>90</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>91</sup> "Uncertainty Lies Ahead for WTO," *Oxford Analytica*, July 31, 2008; "Brazil-US rows building over Colombia, biofuels, trade: FM," *Agence France Presse*, August 2, 2009.



## World Trade Organization Dispute<sup>92</sup>

Over the past eight years, Brazil and the United States have been involved in a dispute over U.S. subsidies for cotton farmers. Brazil initiated the dispute in 2002, and a WTO dispute settlement panel ruled in Brazil's favor in September 2004. The United States appealed the ruling but it was reaffirmed by the WTO appellate body in March 2005. Although the Bush Administration asked Congress to modify the cotton subsidy program in July 2005, a WTO dispute panel ruled in December 2007 that the United States was not moving quickly enough to comply with the 2004 ruling.<sup>93</sup> Brazil and the United States then went to arbitration over the level of trade sanctions that Brazil would have the right to impose against the United States, leading to an August 31, 2009 decision by a WTO arbitration panel, which largely favored Brazil's retaliation request. In March 2010, Brazil announced it would be imposing WTO-sanctioned retaliatory measures worth \$829 million, including \$591 million in higher tariffs on a range of U.S. products and \$239 million through suspension of certain intellectual property rights obligations. In order to avoid these retaliatory measures, the United States reached an agreement with Brazil on June 17, 2010. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide Brazil \$147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil will suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress has a chance to adjust the subsidy program in the 2012 Farm Bill.<sup>94</sup>

In May 2010, H.R. 5439 (Flake) was introduced in the House. The bill would require that the U.S. contributions to the fund established by the United States and Brazil to assist Brazilian cotton farmers be fully offset by reductions in direct payments for U.S. cotton producers under the Farm Bill.

## Generalized System of Preferences<sup>95</sup>

The Generalized System of Preferences (GSP) provides duty-free tariff treatment to certain products imported from developing countries. In the 109<sup>th</sup> Congress, renewal of the preference (as established by Title V of the Trade Act of 1974) was somewhat controversial, owing, in part, to concerns of some Members that a number of the more advanced developing countries (such as Brazil and India) were contributing to the impasse in the Doha round of WTO talks. Compromise language worked out between the House and Senate extended GSP for two years for all countries, while asserting that the President "should" revoke "competitive need limitation (CNL)" waivers for products from certain countries, based on the criteria specified. In June 2007, the Bush Administration decided to revoke the CNL waivers on Brazilian brake parts and ferrozirconium.<sup>96</sup> The 111<sup>th</sup> Congress extended GSP until December 31, 2010 with P.L. 111-124.

<sup>92</sup> For more information on U.S.-Brazil WTO disputes, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program* by Randy Schnepf.

<sup>93</sup> "WTO Tells U.S. to Act on Illegal Cotton Subsidies," *Financial Times*, December 19, 2007.

<sup>94</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>95</sup> This section was drawn from CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>96</sup> "USTR Revokes GSP Waivers for India, Brazil Despite Rangel Objections," *Inside U.S. Trade*, June 29, 2007.

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

## **Intellectual Property Rights**

In the last few years, Brazil has taken steps to improve its record on protecting intellectual property rights (IPR). The Brazilian government has created a national action plan to address piracy and intellectual property crimes, which has included increased police actions. Brazil and the United States continue to work together to address intellectual property issues, primarily through the U.S.-Brazil Bilateral Consultative Mechanism and the U.S.-Brazil Commercial Dialogue. In recognition of this progress, the United States Trade Representative lowered Brazil from the Priority Watch List of countries with significant IPR violations to the Watch List in 2007. Brazil has remained on the Watch List every year since 2007. 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>97</sup> The U.S. government has also expressed concerns about Brazil's periodic threats to issue compulsory licenses for patented pharmaceutical products. In May 2007, Brazil broke a patent on a drug used to treat HIV/AIDS that is produced by Merck & Co. in order to import a cheaper version of that drug from India.<sup>98</sup> In July 2009, President Lula suggested that developing countries should be allowed to lift patent rights to produce more vaccine to battle the A(H1N1) flu epidemic.<sup>99</sup>

## **Human Rights**

The U.S. State Department's Country Report on Human Rights on Brazil covering 2009 states that the "federal government generally respected the human rights of its citizens; however, there continued to be numerous, serious abuses, and the records of several state governments were poor."<sup>100</sup> Some human rights issues of particular concern include ongoing crime and human rights abuses by police, race and discrimination, and trafficking in persons.

## **Violent Crime and Human Rights Abuses by Police**

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

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<sup>97</sup> U.S. Trade Representative, *Special 301 Report*, April 30, 2010.

<sup>98</sup> "Haggling Saves Brazil \$1 Billion on AIDS Drugs," *Reuters News*, November 13, 2007.

<sup>99</sup> "Update: Argentina, Brazil Question Swine Flu Vaccine Patents," *CNN Money*, July 24, 2009.

<sup>100</sup> U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, *2009 Country Reports on Human Rights Practices*, March 11, 2010.

The weaknesses in Brazil's criminal justice system have become dramatically apparent in recent years as gangs have launched violent attacks that have destabilized the cities of São Paulo and Rio de Janeiro. In one such attack in May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (*Primeiro Comando da Capital*, PCC), paralyzed the city of São Paulo for several days.<sup>101</sup> Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths.<sup>102</sup> More recently, in October 2009, gunmen of the Red Command (*Comando Vermelho*, CV) launched a raid on the Morro dos Macacos favela to wrest control of the drug trade from the rival Friends of Friends (*Amigos dos Amigos*, ADA) gang. Over the course of several days, 31 people were killed, including three police sharpshooters whose helicopter was shot down as they tried to control the situation.<sup>103</sup>

As police forces in São Paulo and Rio de Janeiro have employed strong-arm tactics in hopes of curbing the rampant gang violence, some human rights groups have raised concerns over a rising number of extrajudicial killings. Upon completing a November 2007 visit to Brazil, a U.N. Special Rapporteur concluded that police in Brazil are allowed to "kill with impunity in the name of security."<sup>104</sup> Indeed, more than 11,000 people have been killed by the two police forces since 2003. Although the officers involved have reported nearly all of the killings as legitimate acts of self defense, or "resistance killings," a recent two year investigation by Human Rights Watch concluded that "a substantial portion of the alleged resistance killings reported...[were] in fact extrajudicial executions." The Human Rights Watch report also indicates that those police officers responsible for extrajudicial killings enjoy near total impunity. For example, of the over 7,800 complaints against police officers recorded by the Rio Police Ombudsman's Office over the past decade, only 42 generated criminal charges by state prosecutors and just four led to convictions.<sup>105</sup> Despite these criticisms, some have defended the strong-arm tactics. São Paulo's public security secretariat maintains that Human Rights Watch failed to take note of the fact that annual state killings by police have declined by 50% since 2003 while the homicide rate has been reduced by 70% over the past decade.<sup>106</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; however, this may be changing. The state of Rio de Janeiro launched a new anticrime initiative in 2009 that considerably expands the number of personnel charged with maintaining security. Whereas previous police efforts generally centered around quick raids, the new initiative establishes Police Pacification Units (*Unidades de Polícia Pacificadora*, UPPs) that will maintain permanent presences in the favelas. After the favelas are cleared of drug gangs, the UPPs are

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<sup>101</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>102</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 News Service*, February 7, 2007.

<sup>103</sup> "Brazil: Rio police intervention in gang war leaves high toll," *Latin American Security & Strategic Review*, October 2009.

<sup>104</sup> "Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions Concludes Visit to Brazil," *States News Service*, November 15, 2007.

<sup>105</sup> "Lethal Force: Police Violence and Public Security in Rio de Janeiro and São Paulo," *Human Rights Watch*, December 2009.

<sup>106</sup> "Human Rights: Police violence under renewed scrutiny," *Latin American Regional Report: Brazil & Southern Cone*, January 2010.

charged with maintaining security and other governmental institutions are brought in to provide basic social services. The new initiative has been rather successful thus far in reducing crime and violence without extensive bloodshed. The murder rate in Rio de Janeiro was down 16.5% in the first quarter of 2010 and 14.4% in the second quarter of 2010, compared to the same periods in 2009.<sup>107</sup> Rio de Janeiro's government has expanded the initiative from the seven pilot favelas targeted in 2009 to 40 additional favelas in 2010, and intends to establish UPPs in 100 favelas by the time Brazil hosts the World Cup in 2014.<sup>108</sup>

### **Race and Discrimination<sup>109</sup>**

People of African descent in Brazil, also known as Afro-Brazilians, represent 50.6% of the country's population but constitute 67% of the poor.<sup>110</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>111</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. In July 2010, President Lula signed the Statute of Racial Equality, which offers tax incentives for enterprises that undertake racial inclusion, stipulates that the government shall adopt affirmative action programs to reduce ethnic inequalities, and reaffirms that African and Brazilian black history should be taught in all elementary and middle schools, among other provisions. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that some of the legislation was weakened before passing and many of the initiatives lack the funding, staff, and clout necessary to be effective.<sup>112</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 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

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<sup>107</sup> "Brazil: Rio sees sharp fall in violent crime," *Latin American Security & Strategic Review*, May 2010; "Brazil: Murder rate falling in Rio," *Latin American Regional Report: Brazil & Southern Cone*, August 2010.

<sup>108</sup> "Brazil: Forty Rio favelas targeted for 'pacification,'" *Latin American Security & Strategic Review*, January 2010; Christian Parenti, "Retaking Rio," *The Nation*, May 12, 2010.

<sup>109</sup> For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando Seelke and June S. Beittel.

<sup>110</sup> Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010.

<sup>111</sup> Livio Sansone, "Anti-Racism in Brazil," *NACLA Report on the Americas*, September 1, 2004.

<sup>112</sup> Dayanne Mikevis and Matthew Flynn, "Brazil's Civil Rights Activists Achieving Overdue Policy Reform," *Citizen Action in the Americas*, No. 17, April 2005; Fabiana Frayssinet, "Controversy Dogs Brazil's Racial Equality Law," *Inter Press Service*, July 9, 2010; Arthur Brice, "Brazil enacts racial discrimination law, but some say it's not needed," *CNN*, July 21, 2010.

United States-Brazil Joint Action Plan Against Racial Discrimination to bilaterally promote racial equality in areas such as education, health, housing, and labor.<sup>113</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>114</sup>

According to the U.S. State Department's Trafficking in Persons report, Brazil does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. As a result, it is listed as a Tier 2 country.<sup>115</sup> Brazil is a source, transit, and destination country for people, especially women and children, trafficked for commercial sexual exploitation. Brazilian Federal Police estimate that between 250,000 and 400,000 children are exploited in domestic prostitution, especially in the country's coastal resort areas where child sex tourism is prevalent.

Brazil is also a source country for men trafficked internally for forced labor. More than 25,000 men have reportedly been recruited to labor in slave-like conditions, many in the country's agribusiness industry. Roughly half of the more than 11,000 people freed from debt slavery in 2007 and 2008 were found working on sugarcane plantations.<sup>116</sup> While the Brazilian government announced an agreement with the sugar industry to provide decent working conditions for the country's sugarcane cutters in June 2009, the accord does not establish minimum wages or formal obligations.<sup>117</sup> Reports suggest that significant numbers of men working in cattle ranching, mining, and the production of charcoal for pig iron—a key ingredient of steel that is then purchased by major companies in the United States—are also subjected to slave labor.<sup>118</sup>

Over the past year, the Brazilian government has taken a number of actions to address the problem of human trafficking. Anti-slave labor mobile units under the Ministry of Labor increased their operations, inspecting remote areas, freeing 3,769 victims, and forcing those responsible to pay fines and restitution. Those responsible for slave labor paid some \$3.3 million in fines as a result of the 2009 operations. The Brazilian government also continued prosecuting traffickers, providing assistance to victims, and broadcasting its anti-trafficking public awareness

<sup>113</sup> "Partnering with U.S. to Fight Racial Bias," *Miami Herald*, September 8, 2008.

<sup>114</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.

<sup>115</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>116</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report*, June 4, 2008 & June 16, 2009.

<sup>117</sup> "Brazil seeks decent working conditions for sugarcane cutters," *EFE News Service*, June 26, 2009.

<sup>118</sup> Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006; U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2010*, June 14, 2010.



campaign. Additionally, the Brazilian government continued implementing a national plan of action to prevent trafficking in persons. Despite these actions, Brazil has made only limited progress in bringing traffickers to justice and effectively penalizing those who exploit forced labor.<sup>119</sup>

## Convention on the Civil Aspects of International Child Abduction

Over the past several years, a high-profile child custody case has focused attention on Brazil's noncompliance with the Hague Convention on the Civil Aspects of International Child Abduction.<sup>120</sup> In June 2004, Sean Goldman was taken to Brazil by his mother, Bruna Bianchi Carneiro Ribeiro Goldman, a Brazilian native. Ms. Bianchi then divorced her husband David Goldman—a U.S. citizen—and asserted full custody of Sean. In August 2004, the Superior Court of New Jersey ruled that Ms. Bianchi's continued retention of Sean constituted parental kidnapping under U.S. law and awarded Mr. Goldman custody.<sup>121</sup>

In September 2004, Mr. Goldman filed an application for Sean's return under the 1980 Hague Convention on the Civil Aspects of International Child Abduction, to which both the United States and Brazil are party and which entered into force between the countries on December 1, 2003. Under the Convention, a child removed from a country in violation of a parent's custodial rights should be promptly returned to the place of his or her habitual residence. The courts of the country of the child's residence can then resolve the custody dispute.<sup>122</sup>

In 2005, a Brazilian federal judge ruled that although Sean had been moved to Brazil wrongfully, he should remain in Brazil because he had become settled in his new location.<sup>123</sup> In August 2008, Ms. Bianchi died and a Brazilian state court judge granted temporary custody of Sean to the man Ms. Bianchi married following her move to Brazil, Joao Paulo Lins e Silva.<sup>124</sup> The custody case then bounced between federal appeals courts and the Brazilian Supreme Court until December 22, 2009, when the Brazilian Supreme Court issued a definitive ruling that ordered that Sean be returned to his father. On December 24, 2009, Sean was handed over to Mr. Goldman at the U.S. Consulate in Rio de Janeiro.<sup>125</sup>

The U.S. State Department's *Report on Compliance with the Hague Convention on the Civil Aspects of International Child Abduction* cites Brazil for patterns of noncompliance with the Convention. It faults Brazilian courts for treating Convention cases as custody decisions,

<sup>119</sup> U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, *Trafficking in Persons Report 2010*, June 14, 2010.

<sup>120</sup> For more information on international parental child abductions, see CRS Report RS21261, *International Parental Child Abductions*, by Alison M. Smith.

<sup>121</sup> *David G. Goldman v. Bruna B. Goldman*, FD-13-395-05C (Superior Court of New Jersey 2004).

<sup>122</sup> Hague Conference on Private International Law: Final Act, Draft Conventions on Civil Aspects of International Child Abduction and on International Access to Justice, Articles on the Law Applicable to Certain Consumer Sales, and Recommendations and Decisions of the Conference, Oct. 25, 1980, 19 I.L.M. 1501 (1980).

<sup>123</sup> Under Article 12 of the Hague Convention, a judge may refuse to return a child if the child has become settled in his or her new home and more than one year has passed from the date of the child's removal.

<sup>124</sup> Joshua Partlow, "Fight for 8-Year-Old Colors Relationship Between U.S., Brazil," *Washington Post Foreign Service*, March 13, 2009; Kirk Semple, "Court Battle Over a Child Strains Ties in 2 Nations," *New York Times*, February 25, 2009.

<sup>125</sup> Marcelo Soares & Chris Kraul, "Boy leaves Brazil with his father: The long custody battle over Sean Goldman had strained U.S.-Brazil relations," *Los Angeles Times*, December 25, 2009.

demonstrating bias toward Brazilian citizens, and making the judicial process excessively lengthy. There are currently some 50 unresolved cases of children being retained in Brazil after having been wrongly removed from the United States.<sup>126</sup>

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

## HIV/AIDS

Internationally recognized as having one of the world's most successful HIV/AIDS programs, Brazil has made the fight against the spread of HIV/AIDS a national priority. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral therapy (ART) on a limited basis by 1991, and later guaranteeing universal access by 1996. Currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government. The incidence of HIV/AIDS in Brazil has stabilized since 1997, and universal free access to ART has increased average survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996.<sup>127</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>128</sup>

Brazil currently manufactures older ART drugs for domestic consumption and export to several African countries but has to import newer medicines. According to Brazil's Ministry of Health,

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<sup>126</sup> Kirk Semple, "Court Battle Over a Child Strains Ties in 2 Nations," *New York Times*, February 25, 2009.

<sup>127</sup> Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

<sup>128</sup> Mary Anastasia O'Grady, "Brazil Could Turn a Trade Victory into Defeat," *Wall Street Journal*, December 16, 2005.



tough negotiations with pharmaceutical companies have resulted in \$1.1 billion in savings for the country's HIV/AIDS program.

## **Amazon Conservation**

The Amazon basin spans the borders of eight countries and is the most biodiverse tract of tropical rainforest in the world. It holds 20% of the Earth's fresh water and 10% of all known species. Approximately 60% of the Amazon falls within Brazilian borders, making Brazil home to 40% of the world's remaining tropical forests.<sup>129</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. Over the last 40 years, the human population has grown from 4 million to over 20 million, and the resulting settlements, roads, logging, cattle ranching, and subsistence and commercial agriculture have led to approximately 15% of the Brazilian Amazon being deforested.<sup>130</sup> 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>131</sup> Between 1990 and 2000, Brazil lost approximately 70,000 square miles of forest; however, deforestation rates have generally declined since the peak year of 2004.<sup>132</sup>

## **Domestic Efforts**

Recognizing that deforestation threatens the biodiversity of the Amazon region and is responsible for 70% of Brazil's annual greenhouse-gas emissions, the Lula Administration has expanded protected areas and implemented new environmental policies.<sup>133</sup> During its first five years in office, the Lula Administration created 62 new natural reserves, bringing the total area of the Brazilian Amazon protected by law to nearly 110,000 square miles, the fourth-largest percentage of protected area in relation to territory in the world.<sup>134</sup> President Lula has also signed a Public Forest Management Law that encourages sustainable development and placed a moratorium on soybean plantings and cattle ranching in the Amazon. Moreover, Brazil intends to reduce the rate of Amazon deforestation by half—based on the 1996-2005 average—to 2,300 square miles per year—by 2017 and reduce Amazon deforestation by 80% by 2020. Brazil plans to meet these goals by increasing federal patrols of forested areas, replanting over 21,000 square miles of forest, and financing sustainable development projects in areas where the local economy depends

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<sup>129</sup> Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008; "Amazon: World's largest tropical rainforest and river basin," *World Wildlife Fund*, 2009.

<sup>130</sup> Lesley K. McAllister, "Sustainable Consumption Governance in the Amazon," *Environmental Law Reporter*, December 2008.

<sup>131</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 existing lands. After agriculture, pasture grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning alter the ecosystem to the point that forests cannot regenerate.

<sup>132</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008.

<sup>133</sup> "Brazil: The Land Cries for Amazonia," *Latin America Data Base NotiSur*, February 13, 2009.

<sup>134</sup> "Brazil: Government policy for Amazon still ambiguous," *Latin News Weekly Report*, May 22, 2008.

on logging.<sup>135</sup> The Lula Administration maintains that its efforts have been successful, highlighting the fact that just 900 square miles of the Amazon were deforested between July 2009 and July 2010, a 48% drop from the year before and the lowest annual level since Brazil's National Institute for Space Studies began monitoring deforestation in 1988.<sup>136</sup>

Although some conservation groups have praised President Lula for his Administration's actions, a number of environmentalists—including former Environment Ministers Marina Silva and Carlos Minc—have questioned the Administration's commitment to sustainable development.<sup>137</sup> Critics assert that the Administration favors agricultural interests over conservation. This claim was reinforced by President Lula's June 2009 approval of an environmental law that grants nearly 260,000 square miles of the Amazon to illegal squatters, 72% of which will go to large land holders.<sup>138</sup> Critics also maintain that Brazil's occasional declines in deforestation rates are not the result of the Lula Administration's initiatives, but correspond to declining global commodity prices that make it less profitable to clear the forests. They point out that deforestation rates only began falling as commodity prices collapsed in late 2008 as a result of the global financial crisis.<sup>139</sup> In order to combat further deforestation, some analysts maintain that the Brazilian government will have to greatly increase the number of people employed to work in protected areas and do more to confront agricultural producers operating within the Amazon.<sup>140</sup>

## International Initiatives

The Amazon holds 10% of the carbon stores in the world's ecosystem and absorbs nearly two billion tons of carbon dioxide each year, making it a sink for global carbon emissions and an important asset in the prevention of climate change.<sup>141</sup> The Kyoto Protocol—of which Brazil is a signatory—created a Clean Development Mechanism (CDM), which allows emission reduction projects in developing countries to earn certified emission reduction credits (CERs) that can then be traded or sold to industrialized countries to meet their mandated emission reduction targets. Brazil has taken full advantage of the CDM, and is host to nearly 10% of the worldwide emission reduction projects. These projects represent 42.5 million CERs, or a reduction of 42.5 million tons of carbon dioxide.<sup>142</sup> The CDM allows for a wide variety of emission reduction projects, but in terms of forestry, CERs are only awarded for afforestation and reforestation projects, not forest conservation. As a result, forestry projects account for a very small percentage of the total CERs awarded. A number of industrialized countries that would like to achieve a greater percentage of their mandated emission reductions through carbon offsets have teamed with developing countries with substantial tropical forests to propose widening the CDM to include forest

<sup>135</sup> "Government Sets Targets to Cut Deforestation," *Latin American Regional Report*, December 2008; "Brazil: Climate credentials to the fore in Copenhagen," *Oxford Analytica*, November 19, 2009.

<sup>136</sup> "Brazil says Amazon deforestation slowest in 21 years," *Reuters*, November 12, 2009; "Brazil officials: Amazon deforestation declining," *Associated Press*, August 31, 2010.

<sup>137</sup> Joshua Partlow, "Brazil's Decision to Reduce Deforestation Praised," *Pittsburgh Post-Gazette*, December 7, 2008; Ana Paula Paiva, "Brazil environment minister says lacks support," *Reuters*, May 28, 2009.

<sup>138</sup> Jose Pedro Martins, "Brazil: Environmentalists and Church Protest Legalization of Fraudulently Obtained Lands in the Amazon," *Latin America Data Base NotiSur*, June 25, 2009.

<sup>139</sup> Raymond Colitt, "Brazil on target in slowing Amazon deforestation," *Reuters*, June 2, 2009.

<sup>140</sup> *Ibid*; Joshua Partlow, "A Protected Forest's Fast Decline," *Washington Post*, February 6, 2009.

<sup>141</sup> "Brazil: Global warming risks threaten Amazonia," *Oxford Analytica*, March 16, 2009; Conor Foley, "The End of the Amazon?," *Foreign Policy*, June 2009.

<sup>142</sup> United Nations Framework Convention on Climate Change, "CDM Statistics," September 2010.

conservation. Brazil has opposed such a plan, arguing it would absolve rich countries from cutting their own emissions.<sup>143</sup> Brazil has supported the rise of voluntary offset markets, however, in which organizations and individuals not subject to mandatory emission reductions can buy carbon offsets to contribute to conservation and clean energy projects.

Brazil believes Amazon conservation should be done through public funding rather than a carbon market. Accordingly, it launched the “Amazon Fund” in August 2008. The fund is intended to attract donations from countries, companies, and non-governmental organizations to assist in Brazil’s Amazon conservation efforts. Brazil intends to raise \$21 billion by 2021 to support forest conservation, scientific research, and sustainable development. Norway has pledged \$1 billion to the fund through 2015 and Germany has pledged \$26.8 million. The first projects funded by the Amazon Fund were announced in December 2009. They include projects to regenerate degraded land, monitor land registration titles, and pay rubber tappers and other forest dwellers to protect the forest.<sup>144</sup>

U.S. environment programs support tropical forest conservation through the promotion of proper land-use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, the U.S. Agency for International Development (USAID) initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and public and private organizations working throughout the Amazon Basin in their efforts to conserve the Amazon’s globally important biodiversity. USAID provided \$5.2 million for environmental programs in Brazil in FY2007, \$9.5 million in FY2008, and \$10 million in FY2009. The Conference Report (H.Rept. 111-366) to the FY2010 Consolidated Appropriations Act (P.L. 111-117) asserts that, of the funds appropriated in the act for biodiversity programs, \$25 million are to go to the Amazon Basin Conservation Initiative, \$10 million of which is directed to activities in Brazil. In August 2010, the United States and Brazil signed a debt-for-nature agreement under the Tropical Forest Conservation Act of 2008 (P.L. 105-214), which will reduce Brazil’s debt payments by \$21 million over the next five years. In exchange, the Brazilian government will commit these funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.<sup>145</sup>

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<sup>143</sup> “Rich, poor in dispute over rainforest cash,” *Reuters*, December 4, 2008. For more information on Forest Carbon Markets, see CRS Report RL34560, *Forest Carbon Markets: Potential and Drawbacks*, by Ross W. Gorte and Jonathan L. Ramseur.

<sup>144</sup> “Brazil unveils first foreign-funded Amazon projects,” *Reuters*, December 4, 2009.

<sup>145</sup> U.S. Department of State, Office of the Spokesman, “Debt-for-Nature Agreement to Conserve Brazil’s Tropical Forests,” August 12, 2010. For more information on the Tropical Forest Conservation Act, see CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheikh.

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