U.S.-Brazil Economic Relations

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The United States and Brazil historically have enjoyed robust political and economic ties, but many say the countries’ occasionally divergent policy approaches on trade and other matters have hindered the development of a close partnership. In March 2019, President Donald J. Trump and President Jair Bolsonaro announced plans to deepen the bilateral trade relationship, which could lead to eventual negotiations for a free trade agreement (FTA). This led to an acceleration of the bilateral dialogue under the 2011 Agreement on Trade and Economic Cooperation (ATEC) negotiated during the Obama Administration. In October 2020, the two countries announced the successful conclusion of a Protocol on Trade Rules and Transparency, which adds three annexes to the ATEC: Trade Facilitation and Customs Administration, Good Regulatory Practices, and Anti-Corruption. The Protocol does not require U.S. congressional approval, but would need approval by the Brazilian Congress. Congress has expressed interest in Brazil and U.S.-Brazilian relations with environmental conservation and trade relations at the center of its focus. While some Members of Congress see the agreement as a way to increase U.S. investment and promote U.S. values in the South America region, others oppose an expanded U.S. economic partnership under the Bolsonaro Administration because of human rights, labor, environmental, and other concerns.

The deepening of the trade relationship is part of a broader push by the Trump and Bolsonaro administrations to strengthen the overall U.S.-Brazilian relationship. During the Obama Administration, U.S. and Brazilian officials frequently highlighted the countries’ shared values as multicultural democracies, and pledged to form a stronger partnership. Some U.S. officials, however, viewed Brazil’s policies in international trade and climate change as obstructionist, while some Brazilian officials viewed the U.S. national security surveillance in Brazil as a reason to believe that the United States opposed Brazil’s rise. Such episodes fueled an ongoing mistrust between the governments of the two countries. Since the January 2019 inauguration of President Bolsonaro, relations between the two countries have warmed. The Bolsonaro Administration views a close relationship with the United States as essential for advancing Brazil’s national interests and strengthening the country’s international standing. President Trump has welcomed Bolsonaro’s rapprochement. It is unclear if a Biden Administration would continue to pursue closer trade relations and build on the recently concluded agreements with Brazil.

Despite historical differences in trade policy approaches, U.S.-Brazil trade relations are strong and have deepened in the past two decades. Total merchandise trade (exports plus imports) between the United States and Brazil totaled $73.7 billion in 2019, with $42.9 billion in U.S. exports and $30.8 billion in U.S. imports. The United States has had a merchandise trade surplus with Brazil since 2008 ($11.9 billion in 2019) and a services trade surplus for over 20 years. In 2019, the U.S. services trade surplus with Brazil was $17.8 billion, down from $20.1 billion in 2018. Although U.S. trade ties with Brazil are strong, China ranks first among Brazil’s trading partner and Brazil’s total trade with China ($98.6 billion in 2019) is significantly higher than with the United States ($59.8 billion). A factor motivating the United States to strengthen the bilateral relationship is to increase the market for U.S. goods and services in Brazil.

The October 2020 Protocol on Trade Rules and Transparency, which complements Brazil’s domestic reforms to improve competitiveness, regulatory reform and economic freedom, includes the following commitments.

- **Trade Facilitation and Customs Administration**: provisions on disciplines on penalties imposed by customs administration in each country, single window enabling traders to submit information requirements through one entry point, authorized economic operator and automated customs procedures to increase efficiency.

- **Good Regulatory Practices (GRP)**: similar to the GRP framework in the U.S.-Mexico-Canada Agreement (USMCA), including greater transparency in Brazilian regulatory procedures.

- **Anti-Corruption**: obligations to adopt and maintain measures to combat bribery and corruption, money laundering, recovery of proceeds of corruption, denial of safe haven, whistleblower protection.

While some view an FTA between the United States and Brazil to be a distant goal, the dialogue between the two governments has moved towards a more collaborative relationship. Congress may consider exploring prospects for enhancing economic and trade relations with Brazil on a “building block” approach using chapters from recent FTAs as templates. For a comprehensive FTA that includes the elimination of tariff and nontariff barriers, Congress would have to approve such an
agreement under Trade Promotion Authority (TPA), the time-limited authority that Congress uses to set trade negotiating objectives and to establish notification and consultation requirements, and to vote on implementing legislation. TPA expires on July 1, 2021. For additional information, see CRS In Focus IF10447, *U.S.-Brazil Trade Relations*, by M. Angeles Villarreal and Andres B. Schwarzenberg, and CRS Report R46236, *Brazil: Background and U.S. Relations*, by Peter J. Meyer.
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Introduction

The United States and Brazil have enjoyed a strong economic relationship for many years. In 2019, Brazil ranked second among the United States’ Latin American trading partners in goods and 19th among all U.S. trading partners. In March 2020, President Donald Trump and President Jair Bolsonaro announced plans to deepen the bilateral trade relationship and potentially move toward free trade agreement (FTA) negotiations in the years to come. These discussions led to the Protocol on Trade Rules and Transparency, signed on October 19, 2020, which includes annexes in trade facilitation and customs administration, good regulatory practices, and anti-corruption. The Protocol would need the approval of the Brazilian Congress but would not need approval by the U.S. Congress. Congress has expressed interest in Brazil and U.S.-Brazilian relations with environmental conservation and trade relations at the center of its focus. While some Members of Congress see the agreement as a way to increase U.S. investment and promote U.S. values in the South America region, others oppose an expanded U.S. economic partnership under the Bolsonaro Administration because of human rights, labor, environmental, and other concerns.

In addition to the bilateral trade relationship, the two countries announced a technology safeguards agreement in March 2019 that is to allow U.S. space launches in Brazil, while ensuring proper handling of sensitive U.S. technology consistent with U.S. laws. The United States also endorsed Brazil’s accession to the Organization for Economic Cooperation and Development (OECD). Some experts contend that the United States and Brazil have numerous reasons to build on the progress made in the economic relationship over the years. Some policymakers maintain that strengthening trade ties with Brazil would help bolster U.S. interests in the region, given China’s increasing presence there. Others who are concerned about the environment, labor standards, and human rights, particularly under the Bolsonaro administration, are more hesitant to expand trade ties. As Latin America faces increasing uncertainty amid global power shifts and external shocks, there may be other strategic and economic reasons to strengthen the bilateral economic relationship.

President Bolsonaro, who entered office in January 2019, is pursuing free-market reforms during his four-year term, which ends in December 2022. He has taken steps to cooperate with the United States on issues of mutual interest. Brazil’s long-term trade strategy, however, is bound by its status as a party to the

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Mercado Común del Sur (MERCOSUR), a common market trade arrangement with Argentina, Paraguay and Uruguay. If Brazil were to pursue an FTA, it would have to decide whether to pursue it together with MERCOSUR countries or bilaterally, which would require changing MERCOSUR’s rules.

U.S.-Brazilian Relations

The ongoing bilateral trade negotiations are part of a broader push by the Trump and Bolsonaro administrations to strengthen U.S.-Brazilian relations. The United States and Brazil historically have enjoyed robust political and economic ties, but many say the countries’ occasional divergent policy approaches and national interests have hindered the development of a closer partnership. During the Obama Administration, for example, U.S. and Brazilian officials frequently highlighted the countries’ shared values as multicultural democracies, and pledged to “form a U.S.-Brazil Partnership for the 21st Century.” However, Brazil’s independent foreign policy frustrated some U.S. officials, who viewed Brazil’s negotiating positions in international trade and climate discussions as obstructionist. Similarly, revelations that the U.S. National Security Agency had engaged in extensive surveillance in Brazil reinforced a view among some Brazilian officials that the United States opposed Brazil’s rise. Such episodes fueled mutual mistrust between the countries’ policy-making communities and stalled bilateral initiatives.

U.S.-Brazilian relations have warmed since the January 2019 inauguration of President Bolsonaro. Whereas the past several Brazilian administrations sought to maintain autonomy in foreign affairs, Bolsonaro views a close relationship with the United States as essential for advancing Brazil’s national interests and strengthening the country’s international standing. He frequently has aligned his foreign policy positions with those of the Trump Administration, particularly within multilateral organizations. Over the past two years, Brazil has backed the U.S. trade embargo on Cuba at the United Nations, joined with the United States to impose sanctions on Venezuelan officials using the Inter-American Treaty of Reciprocal Assistance, and supported the Trump Administration’s candidate to lead the Inter-American Development Bank, rather than offering its own. Bolsonaro also has expressed support for U.S. actions outside Latin America, including the killing of Iranian military commander Qasem Soleimani in Iraq and the Trump Administration’s decision to withdraw from the World Health Organization.

President Trump welcomed Bolsonaro’s rapprochement and joined with him to reaffirm a “strategic alliance” between the United States and Brazil. Enhanced security cooperation has been a top priority for both countries. U.S. and Brazilian law enforcement agencies have signed

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3 For more information on U.S.-Brazil relations, see CRS Report R46236, Brazil: Background and U.S. Relations, by Peter J. Meyer.
4 White House, Office of the Press Secretary, “Joint Statement by President Obama and President Rousseff,” April 9, 2012.
agreements to improve information sharing and strengthen border security while seeking to better coordinate their efforts to combat drug-trafficking and other transnational crime.\textsuperscript{10} Military-to-military ties also have increased, particularly since President Trump designated Brazil as a major non-NATO ally in July 2019. As one of only 17 countries with that designation, Brazil now has privileged access to U.S. military equipment, training, and joint research and development opportunities.\textsuperscript{11}

The United States and Brazil have also made several notable advances in bilateral cooperation on science and technology. In 2019, after decades of sporadic discussions, the United States and Brazil signed a technology safeguards agreement that allows U.S. launch technology to be used at Alcântara space center in Brazil’s northeastern state of Maranhão (see Figure 1 for a map of Brazil). The agreement could pave the way for expanded commercial, defense, and scientific cooperation related to space. The United States and Brazil are also working together to respond to the Coronavirus Disease 2019 (COVID-19) pandemic. Building on a long history of collaboration on health and biomedical research, the U.S. Centers for Disease Control and Prevention and the National Institutes of Health are working with Brazilian institutions to strengthen surveillance and data analysis systems and to expedite the development of a vaccine.\textsuperscript{12}

Nevertheless, some policy differences have emerged over sensitive issues that affect the economic and geopolitical interests of the United States and Brazil. The Trump and Bolsonaro administrations have both sought to protect certain domestic industries by imposing or maintaining barriers to bilateral trade (see “U.S.-Brazil Trade Talks”). They also have differed in their approaches toward relations with China. Bolsonaro echoed many of President Trump’s criticisms of China during his 2018 presidential campaign, but he generally has sought to maintain cordial relations in office, recognizing China’s role as Brazil’s top trade partner and an important source of foreign investment. Brazil’s ability to maintain close ties with the United States and China is now under pressure, however, as U.S. officials have warned Brazil that U.S. investment and bilateral military and intelligence cooperation could be in jeopardy if Brazil allows the Chinese company Huawei to participate in the country’s fifth-generation (5G) wireless network.\textsuperscript{13}

The Bolsonaro and Trump Administrations’ efforts to strengthen U.S.-Brazilian relations also have encountered some domestic political opposition. Prominent members of Brazil’s foreign policy establishment repeatedly have criticized Bolsonaro’s alignment with the Trump Administration, arguing that Bolsonaro is subordinating Brazilian interests to those of the United States and violating principles enshrined in the Brazilian constitution, such as non-intervention and the peaceful resolution of conflicts.\textsuperscript{14} Similarly, some U.S. Members of Congress are opposed to a close partnership with the Bolsonaro Administration, which they maintain is presiding over


an erosion of democracy and human rights in Brazil and implementing policies that threaten the Amazon Rainforest and global efforts to mitigate climate change.\footnote{See, for example, Letter from Honorable Richard E. Neal, Chairman, House Committee on Ways and Means, et al. to Honorable Robert Lighthizer, U.S. Trade Representative, June 3, 2020.}

**Figure 1. Map of Brazil**

*Source: Map resources. Adapted by CRS Graphics.*
Brazil’s Trade and Economic Policy

Brazil is the world’s fifth-largest country and ninth-largest economy, with a gross domestic product (GDP) of $1.8 trillion and a GDP per capita of $8,717 in 2019. Services account for more than half of GDP, followed by industry and agriculture. Agribusiness (commodity and processed goods) accounts for about a third of GDP, explaining Brazil’s emphasis on agricultural policies in trade negotiations. Brazil is one of the world’s largest producers of sugar cane, oranges, coffee, soybeans, beef, poultry, and corn. Brazil is the largest oil producer in South America and the ninth largest in the world. It is also a major producer of steel, chemicals, aircraft, automobiles, and auto parts. However, it remains a relatively small trader by world standards. In 2019, the United States was Brazil’s second-largest single-country goods trading partner.

Brazil’s Historical Economic and Trade Policies

For much of the 20th century, Brazil, like other countries in Latin America, adopted an inward-oriented industrialization strategy, commonly termed “import-substitution industrialization” (ISI). To promote industrial development, Brazil created—and protected from foreign competition—government-sponsored or state-owned enterprises (SOEs). Many of these still operate today, although some have been privatized. These include the National Steel Company (founded in 1942), the National Bank for Economic and Social Development (BNDES, founded in 1952), Petrobras, the national petroleum company (founded in 1953), and Embraer, a leading aircraft manufacturer (founded in 1969). BNDES was at the heart of Brazil’s ISI policies, providing financing for public infrastructure and strategic industries. It continues today as an important source of long-term business financing, given the unique structure of Brazil’s financial system.

Brazil’s industrial policy achieved notable results for decades, but with predictable tradeoffs. Because its import-oriented development strategy shielded domestic industry from global competition, it also weakened market incentives to innovate and become more efficient. Trade policy was essentially “administered protectionism.” The large state bureaucracy and other...

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16 The World Bank, World Development Indicators (2020).
19 According to BNDES, the Bank “is the main financing agent for development in Brazil. Since its foundation, in 1952, [it] has played a fundamental role in stimulating the expansion of industry and infrastructure in the country. Over the course of the Bank’s history, its operations have evolved... and now they include support for exports, technological innovation, sustainable socio-environmental development and the modernization of public administration.” For more detail, see Banco Nacional de Desenvolvimento Econômico e Social (BNDES), “The BNDES,” and Rogerio Studart and Luma Ramos, “Financing Sustainable Infrastructure in the Americas,” GEGI Working Paper 007, Boston University’s Global Economic Governance Initiative, July 2016.
21 This policy was overseen by the Carteira de Comércio Exterior do Banco do Brasil (CACEX), created during the military dictatorship (1964-1985). Trade policy today is set by the president, with the Ministry of Foreign Affairs as the lead agency. The Chamber of Foreign Trade (Câmara de Comércio Exterior, CAMEX), created in 1995, acts as an advisory agency for all government departments. Cross-sectoral business interests are voiced by the Brazilian Business Coalition (Coalizão Empresarial Brasileira, CEB), established in 1996. NGOs, trade unions, and other independent groups are represented in coalition groups, such as the Brazilian Network for the Integration of People (Rede Brasileira...
policies also contributed to inefficiency and a high cost of doing business. Although privatization efforts in the 1990s improved the competitive landscape in Brazil, corruption, bribery, complex regulations, and an antiquated and cumbersome tax code remain serious obstacles. These challenges directly diminish Brazilian productivity and attractiveness for investment, and indirectly deter trade liberalization. Yet, continuing to protect this regulatory regime and its national production structure had remained, until recently, an important aspect of Brazil’s trade strategy—one that it pursued unilaterally and regionally as it sought to enhance its influence in Latin America and the world.

Brazil’s status as a regional leader has stemmed, in large part, from its leadership in pressing for South American economic integration, conditional support of multilateral negotiations, and reticence to conclude separate trade deals with developed countries. In 1991, Brazil consolidated its position as the regional industrial hub with the creation of MERCOSUR, a common market trade arrangement with Argentina, Paraguay and Uruguay (see section on “MERCOSUR”). MERCOSUR has continued to operate defensively for the most part, with a high common external tariff (CET) and numerous nontariff barriers (NTBs) that have shielded the region from competition, primarily from the United States and Europe.

Traditionally, Brazil has sought to integrate South America and counter or reduce U.S. economic influence in the region. The country took a number of steps to realize this agenda, particularly in the 1990s and early 2000s. For example, it played a leading role in the establishment of the South America Community of Nations as a loosely interwoven example of political and economic integration, and it strongly resisted efforts to conclude the U.S.-led Free Trade Area of the Americas (FTAA) (see textbox). Also, during the Doha Round of WTO multilateral trade negotiations that began in 2001, and in the aftermath of their breakdown, Brazil played a critical role in rallying other developing countries into a powerful bloc within the WTO (for more information on Brazil’s membership in the WTO, see section on “World Trade Organization (WTO)”.

Brazil has been a leading voice in calling for a reduction in agricultural tariffs in

Pela Integração dos Povos, REBRIP).


23 Over the past year, in particular, there has been a shift in Brazil’s approach to economic policy, including trade. For instance, in a joint statement circulated on October 2, 2020 at the World Trade Organization, Brazil, along with the United States and Japan, expressed “serious concerns with non-market-oriented policies and practices that have resulted in damage to the world trading system and lead to severe overcapacity, create unfair competitive conditions, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade.” In response, one analysts noted, “Not long ago, Brazil championed the cause of developmental reforms in Doha agriculture negotiations through its G20 coalition of developing countries. But it has now changed its positions radically that it is difficult to believe that it is now promoting the importance of market-oriented conditions.” For more detail, see Washington Trade Daily, “US, Others Urge Market Conditions;,” Vol. 29, No. 200, October 6, 2020.

24 For a recent overview of Brazil’s rise as a regional and international power, see “Special Issues: Latin American Responses to the Rise of Brazil,” Bulletin of Latin American Research, Vol. 35, No. 1, 2016.


26 Charalampos Efstathopoulos, “Leadership in the WTO: Brazil, India and the Doha Development Agenda,”
developed nations and resisting calls for greater access to developing nations’ services and industrial sectors. In addition to negotiating for developing country interests in multilateral and regional trade talks, Brazil, as part of MERCOSUR, has also concluded trade agreements with numerous other countries.\textsuperscript{27}

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Free Trade Area of the Americas (FTAA) \\
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In 1994, 34 Western Hemisphere nations met at the first Summit of the Americas envisioning a plan to complete a Free Trade Area of the Americas (FTAA) by January 1, 2005. Despite almost a decade of talks and formal negotiations, progress effectively stalled in late 2003. Problems arose over differences between Brazil and the United States, which, as the co-chairs of the Trade Negotiations Committee (TNC), held the key to consummating the agreement. At the heart of the disagreement were diametrically opposing positions that reflected not only differences in sectoral and industrial issues, but in broader trade preferences as well. The United States was committed to an agreement that included negotiating investment, services, intellectual property rights, and government procurement, among other issues. Brazil, on the other hand, supported a more limited approach that addressed primarily market access, and it refused to engage on other issues unless the United States conceded to addressing trade remedies and subsidies, tariff peaks, and tariff rate quotas (TRQs) in agriculture. This impasse resulted in a compromise that called for a two-tier agreement under which countries could assume different levels of commitment. The proposed framework, viewed by the United States as an accommodation to Brazil, would have included a common set of rights and obligations for all countries along with optional obligations states could assume through a plurilateral agreement. Defining these various commitments proved unworkable, and the breadth of an emerging resistance to the FTAA became clear at the fourth Summit of the Americas in 2005. A total of 29 countries supported renewing negotiations, and the United States pushed to set a specific date in 2006. Brazil, Argentina, Uruguay, and Paraguay (the MERCOSUR countries) rejected this idea, arguing that the conditions for achieving a balanced and equitable agreement did not yet exist. Taking a more extreme position, Venezuela lobbied to end any further effort on the FTAA and for unified resistance against U.S. policies and presence in Latin America. The Summit declaration called for a time to explore problems in the FTAA process, while awaiting the outcome of the World Trade Organization (WTO) Doha Development Round. Because there was no unified vision on how to proceed with the FTAA, negotiations were suspended in 2005 and never resumed. \\
\hline
\end{tabular}
\caption{Free Trade Area of the Americas (FTAA)}
\end{table}

In its steps to liberalize the economy, Brazil affirmed at the WTO in October 2020, along with the United States and Japan, that “market-oriented conditions are fundamental to a free, fair, and mutually advantageous world trading system, to ensure a level playing field for Members’ enterprises for the benefit of their citizens.”\textsuperscript{28} In addition, the Bolsonaro Administration has introduced reforms to reduce the regulatory burden on businesses, and it has taken advantage of MERCOSUR rules to cut tariffs on more than 2,300 products—including certain drugs, medical equipment, and heavy machinery—in an effort to upgrade Brazil’s industrial sector.\textsuperscript{29} The President has also pledged to reform BNDES, overhaul the pension system, privatize some SOEs, and sell off government assets.


Brazil’s Trade with Other Countries

China ranks first among Brazil’s trading partners in merchandise trade, followed by the United States, Argentina, Germany, and the Netherlands. In 2019, Brazil’s trade (exports plus imports) with China totaled $98.6 billion, while trade with the United States totaled $59.8 billion. Brazil’s top export market in 2019, as shown in Figure 2, was China, followed by the United States, Netherlands, Argentina and Japan. Brazil’s exports to China are increasing rapidly, from $40.6 billion in 2014 to $63.4 billion in 2019 (56% increase), compared to exports to the United States, which increased from $27.0 billion to $29.7 billion (10% increase). Brazil’s leading suppliers of imports in 2019 were China, the United States, Argentina, Germany, and South Korea (Figure 3). Brazil’s imports from all countries decreased from $229.2 billion in 2014 to $177.3 billion in 2019.\textsuperscript{30}

**Figure 2. Brazil’s Exports to Major Partners**

![Figure 2. Brazil’s Exports to Major Partners](image)

*Source: CRS presentation of data from Brazil's Ministry of Development, Industry, and Trade provided by Trade Data Monitor.*

**Figure 3. Brazil’s Imports from Major Partners**

![Figure 3. Brazil’s Imports from Major Partners](image)

*Source: CRS presentation of data from Brazil's Ministry of Development, Industry, and Trade provided by Trade Data Monitor.*

\textsuperscript{30} Data is from Brazil’s Ministry of Development, Industry and Trade provided by Trade Data Monitor.
Note: Although Brazil’s imports from Argentina and Germany between 2014 and 2019 appear to be equal, there is a relatively small difference in value for each year. In 2019, for example, imports from Argentina totaled $10.6 billion, while imports from Germany totaled $10.3 billion.

Brazil’s major imports in 2019 from all countries included mineral fuels and oil ($24.0 billion), electrical machinery and equipment ($22.1 billion), nuclear reactors and machinery ($21.3 billion), motor vehicles and parts ($12.2 billion), and organic chemicals ($11.0 billion). Its major exports included mineral fuels and oil ($30.3 billion), oilseeds and grains ($26.4 billion), ores and related products ($25.8 billion), meat ($15.3 billion), and machinery and mechanical appliances ($12.5 billion).31

Brazil’s Regional and Multilateral Trade Initiatives

Brazil’s trade strategy has mainly focused on negotiating for developing country interests, on both the multilateral and regional levels, with MERCOSUR as a central part. Between 1996 and 2017, the trade bloc has entered into trade arrangements with other countries in the hemisphere, including Chile, Bolivia, Peru, Colombia, and Mexico, and also with Israel, Egypt, and the Southern African Customs union. Most of these are partial agreements that did not fully eliminate tariff and nontariff trade barriers, and, thus, have not fully liberalized all trade among member countries.32 Brazil is also a member of the WTO.

MERCOSUR

MERCOSUR, comprised of Brazil, Argentina, Paraguay and Uruguay, was created in 1991 through the Treaty of Asunción. It identified several goals, including the following:

- formation of a common market with eventual free movement of goods, services, and factors of production;
- adoption of a common external tariff and a common trade policy;
- coordination of macroeconomic and sectoral policies; and
- legislative harmonization in areas conducive to stronger integration.

Venezuela joined MERCOSUR as a full member in 2012, but was suspended in late 2016.33 MERCOSUR countries have a combined GDP of about $3.4 trillion, making it the largest preferential trade group in South America and one of the world’s largest economic blocs.

The trade arrangement evolved from a series of 1980s bilateral agreements between Brazil and Argentina. It was conceived as a way to foster new levels of political and economic openness and cooperation following a prolonged period of mutual distrust—much of it taking place under military dictatorships in both countries. In addition, as South American economies moved away from an ISI model of development to one based increasingly on trade openness, a regional trade agreement made sense given that the four countries were “natural trade partners,” sharing geographical, cultural, and economic complementarities.34 Uruguay and Paraguay pressed hard to expand the arrangement to a four-country common market to improve their trade prospects, or at

31 Data from Brazil’s Ministry of Development, Industry and Trade provided by Trade Data Monitor.
33 For more information on Venezuela, see CRS Report R44841, Venezuela: Background and U.S. Relations, coordinated by Clare Ribando Seelke.
least to ensure that they would not be isolated by a bilateral economic pact between their two largest neighbors.  

MERCOSUR, therefore, evolved from economic and political circumstances that emphasized the need to preserve and enhance the Brazil-Argentine bilateral relationship, while fostering cautious ambitions for sub-regional economic integration that could also serve as a platform for the four countries’ entry into the global economy. The treaty followed guidelines compatible with the Latin American Integration Association, a regional trade organization that provides a common, flexible framework for establishing sub-regional trade pacts that encourage inclusiveness and minimal harm to nonmembers.

MERCOSUR followed an incremental path to a common market, beginning with a transition period (1991-1995) in which it operated as an increasingly comprehensive FTA based on a schedule of automatic tariff reductions. The formal jump to a common market was made on January 1, 1995, but in reality, MERCOSUR became (and remains) only a partial customs union.

Brazil and Argentina account for about 95% of MERCOSUR’s GDP and population, which explains why Argentina is one of Brazil’s top trading partners while Paraguay and Uruguay are not. Some observers maintain that the reason MERCOSUR was formed was to protect “Brazilian and Argentine industries from global competition.” Although MERCOSUR countries have progressively lifted trade barriers and established a free trade area since 1991, they continue to have barriers in some sectors. MERCOSUR countries have a common external tariff (CET) of 12.5% to 35% on certain imports from outside the region and adopt a common trade policy toward outside countries and trading blocs. However, the four countries have exceptions to the CET and to other trade policies with third countries. For example, Brazil unilaterally imposed antidumping restrictions on steel imports from China in 2011 and reportedly has one hundred separate tariff code exceptions to the CET.

In addition, there are possible weaknesses with the CET, a core requirement of a true customs union. The CET can be levied twice, first when a good initially enters a MERCOSUR country, and again if it crosses into another member country. Between the double taxation and multiple exceptions issues, resolving application and uniform enforcement of the CET are viewed by many as an important unaddressed issue. Double taxation is an issue particularly for Paraguay, which suffers significant custom revenue losses because most goods enter the MERCOSUR area through one of the other three countries. The incompleteness of the customs union fosters

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35 The addition of Uruguay and Paraguay raised a fundamental debate about MERCOSUR’s purpose. Despite the charter having well-defined integration and development goals, Brazil and Argentina have viewed MERCOSUR as a political project as well. Paraguay and Uruguay, by contrast, have emphasized its economic priority, with some observers insisting that MERCOSUR gets off track when it operates from a political agenda. For more detail, see Luis Alberto Lacalle de Herrera, “MERCOSUR: Project and Perspectives,” Diplomacy, Strategy & Politics Review, April/June 2007. It is worth noting that Lacalle was president of Uruguay between 1990 and 1995, and he played an instrumental role in the negotiation and creation of MERCOSUR.

36 A free trade agreement (FTA) eliminates tariffs on goods exchanged among participating countries. In a customs union, members also adopt a common external tariff (CET) and common trade policy toward third-party countries. A common market takes the next step of allowing for the free flow of all factors of production (capital and labor) among members.

37 Claire Felter, Danielle Renwick, and Andrew Chatzky, Mercosur: South America’s Fractious Trade Bloc, Council on Foreign Relations, July 10, 2019.


asymmetry issues that are at the root of MERCOSUR discontent, which suggests that the achievement of a full common market may be seen by many to remain a distant goal.

MERCOSUR remains at the heart of Brazil’s trade strategy. Brazil relies on the customs union to strengthen its regional economic leadership, and by extension, its trade negotiating position abroad. MERCOSUR also serves Brazil’s trade strategy, allowing Brazil to influence the levels of deepening and help ensure a balance between maintaining its industrial policy and co-opting regional voices in approaching the United States, the European Union (EU), and issues of common interest at the WTO.

**MERCOSUR-EU Agreement**

Since 1995, MERCOSUR countries have worked on several trade initiatives, including trade liberalization with the EU. In June 1999, formal negotiations began for an interregional agreement with goals to include liberalization of trade in goods and services in conformity with WTO rules, as well as enhanced cooperation and a strengthening of political dialogue. In June 2019, MERCOSUR and the EU concluded negotiations for an ambitious and comprehensive trade agreement in principle, part of a wider Association Agreement between the two regions. The final texts have not been signed and must be ratified by both regions before the agreement can enter into force. Some EU countries are opposed to the agreement due to major concerns about deforestation in Brazil and it is not clear if or when the agreement might enter into force.  

If ratified, the EU-MERCOSUR agreement would:

- Remove the majority of tariffs between the two regions, including tariffs on motor vehicles and parts, machinery, chemicals, pharmaceuticals, apparel, footwear, and knitted fabrics.
- Reduce MERCOSUR tariffs on chocolates, wines, spirits, and soft drinks from the EU.
- Provide duty-free access to certain EU dairy products to MERCOSUR countries.
- Adopt measures on intellectual property rights protections including geographical indications (GIs), government procurement provisions, trade in services, and food safety.
- Promote high standards in regard to the environment and sustainable development.

If the agreement is ratified, MERCOSUR partners would gain improved access to European markets, especially in agriculture, which potentially could adversely affect U.S. exporters. Another possible impact, according to some observers, is the “continued willingness of other countries to set the rules of global trade in the absence of U.S. leadership.”

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World Trade Organization (WTO)\textsuperscript{43}

Brazil has been a member of the General Agreement on Tariffs and Trade (GATT) since July 30, 1948 and a member of the WTO since January 1, 1995.\textsuperscript{44} During the Doha Round of multilateral trade negotiations that began in 2001, and in the aftermath of their breakdown in 2008, Brazil has played a critical role in rallying other developing countries into a powerful bloc within the WTO. It has been a leading voice in calling for a reduction in agricultural tariffs and subsidies in developed nations and resisting calls for greater access to developing nations’ services and industrial sectors. In October 2014, the United States and Brazil settled a long-standing WTO dispute over U.S. government support for cotton farmers. The United States has brought four WTO cases against Brazil on the automotive sector, import prices, and patent protection. In March 2019, Brazil committed to forgo special treatment in future WTO negotiations. It had until recently identified itself as a “developing country” at the WTO, availing itself of certain flexibilities in implementing agreements and commitments known as “special and differential treatment.” The Brazilian government’s decision was in exchange for U.S. support of its effort to join the OECD.\textsuperscript{45} Brazil formally applied to accede to the WTO Agreement on Government Procurement (GPA) in May 2020.

U.S.-Brazil Trade and Investment

Although U.S.-Brazilian trade relations were contentious for about 20 years, there may be opportunity to move toward trade liberalization. Previous Brazilian administrations generally objected to trade agreements outside of MERCOSUR and pursued trade issues multilaterally at the WTO. The Bolsonaro Administration’s more open strategy towards the United States could bring about significant change if it can gain enough support within the Brazilian congress.

U.S.-Brazil Trade in Goods and Services

Brazil has duty-free benefits under the U.S. Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain U.S. imports from designated developing countries. Brazil was the fourth-largest beneficiary of the program in 2019, with duty-free imports to the United States valued at $2.3 billion, or 7.4% of all U.S. merchandise imports from Brazil.

Despite historical differences in trade policy approaches between the two countries, U.S.-Brazil trade relations are strong and have deepened in the past two decades. Total merchandise trade (exports plus imports) between the United States and Brazil totaled $73.7 billion in 2019, with $42.9 billion in U.S. exports and $30.8 billion in U.S. imports. Merchandise trade between the two countries peaked in 2012, at $75.9 billion. The United States has had a merchandise trade surplus ($11.9 billion in 2019) with Brazil since 2008 and a services trade surplus for over 20 years (see Figure 4). In 2019, the U.S. services trade surplus with Brazil was $17.8 billion, down

\textsuperscript{43} For more information on the WTO, see CRS In Focus IF10002, \textit{The World Trade Organization}, by Cathleen D. Cimino-Isaacs, Rachel F. Fefer, and Ian F. Fergusson and CRS Report RL32060, \textit{World Trade Organization Negotiations: The Doha Development Agenda}, by Ian F. Fergusson.

\textsuperscript{44} World Trade Organization, \textit{Brazil and the WTO}, Member Information, at https://www.wto.org/english/thewto_e/countries_e/brazil_e.htm.

\textsuperscript{45} Brazil is seeking membership in the Organization for Economic Cooperation and Development (OECD), but it is not a member country. Brazil is one of the nonmember economies with which OECD has working relationships in addition to its member countries. For more information, see OECD, \textit{Brazil and the OECD}, at https://www.oecd.org/brazil/brazil-and-oecd.htm.
from $20.1 billion in 2018. U.S. services exports totaled $24.6 billion, while services imports totaled $6.8 billion.

Figure 4. U.S. Merchandise and Services Trade with Brazil

<table>
<thead>
<tr>
<th>U.S. $ in billions</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
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<tbody>
<tr>
<td>Merchandise</td>
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<tr>
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<tr>
<td>2019</td>
<td></td>
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</tbody>
</table>

| Services          |         |         |         |
| 1999              |         |         |         |
| 2000              |         |         |         |
| 2001              |         |         |         |
| 2002              |         |         |         |
| 2003              |         |         |         |
| 2004              |         |         |         |
| 2005              |         |         |         |
| 2006              |         |         |         |
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| 2013              |         |         |         |
| 2014              |         |         |         |
| 2015              |         |         |         |
| 2016              |         |         |         |
| 2017              |         |         |         |
| 2018              |         |         |         |
| 2019              |         |         |         |

Source: Compiled by CRS with data from the U.S. International Trade Commission (USITC) and U.S. Bureau of Economic Analysis.

Although China overtook the United States as Brazil’s largest trading partner in 2008, U.S. trade with Brazil has more than doubled since 1999 (in nominal terms), especially in the energy and aerospace industries. Leading U.S. export items to Brazil in 2019 included non-crude petroleum oil, civilian aircraft and engines, crude petroleum oil, coal and coal products, and electronic circuits and parts (Figure 5). Leasing U.S. import items from Brazil included crude petroleum oil aircraft and spacecraft, non-crude petroleum oil, iron or steel products, and chemical wood pulp (Figure 6).

Major U.S. services exports to Brazil in 2019 included travel ($8.3 billion), telecommunications, computer, and information services ($3.4 billion), business services ($3.1 billion), financial services ($2.9 billion), and charges for use of IPR ($2.1 billion). U.S. services import included business services ($1.6 billion), air transportation services ($1.2 billion), and travel ($0.8 billion).
Tariffs and Trade Barriers

MERCOSUR rules, which Brazil follows closely, permits a CET of up to 35% *ad valorem*, with flexibilities and exceptions that may go well beyond those levels. Brazil has average most-favored-nation (MFN) applied tariff of 10.1% for agricultural goods and 13.9% for non-agricultural goods (the major category of U.S. exports to Brazil)—more than four times that of the United States (Table 2). Brazil’s maximum WTO bound tariff rate is 30.8% for non-agricultural products and 35.4% for agricultural products.

In past discussions on market access, the United States has focused on reductions in industrial tariffs, whereas Brazil has emphasized lowering U.S. peak tariffs on agricultural imports subject to tariff-rate quotas (TRQs). Brazil has noted that the U.S. average MFN applied tariff rate on agricultural products (4.7%) can mask the high cost that Brazil’s exporters face from U.S. out-of-quota peak tariffs.

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Table 1. U.S. and Brazilian Tariff Rates
(in percent)

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Ag</td>
</tr>
<tr>
<td>Simple Average Final Bound</td>
<td>3.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Simple Average MFN Applied 2019</td>
<td>3.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Trade Weighted Average 2018</td>
<td>2.3</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: CRS presentation of data from the WTO’s World Tariff Profiles 2019.

Notes: Most-favored-nation (MFN).

Other Barriers

In its 2020 National Trade Estimate Report on Foreign Trade Barriers, the U.S. Trade Representative (USTR) also highlights some additional barriers to U.S. exports and investment in Brazil.

- **Nontariff Barriers (NTBs).** The most cited NTBs are
  - complex and discriminating tax treatment of imports that do not meet local content and other production requirements,
  - prohibitions on imports of used and remanufactured goods,
  - fees on retail goods entering Brazil by express shipment, and
  - technical barriers (including conformity assessments) that cause lengthy delays in the approval of medical devices, pharmaceuticals, and processed food products.\(^{47}\)

- **Import Licenses/Customs Valuation.** Issues include onerous registration and fees required of all importers, automatic and non-automatic license requirements, delays in licensing, and burdensome documentation.\(^{48}\) U.S. exporters of agricultural commodities and beverages, pharmaceuticals, and footwear and apparel have expressed concerns about the lack of transparency surrounding import-licensing procedures.

- **Subsidies.** Brazil’s 2011 industrial policy, Greater Brazil Plan (Plano Brasil Maior), offers a variety of tax, tariff, and financing incentives to encourage local firms to produce for export, including tax suspensions on imports by companies committed to exporting information technology (IT) services. It also provides a broad range of assistance to its agricultural and manufacturing sectors in the form

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\(^{47}\) Local content measures “typically oblige an investor to produce or purchase from local sources some percentage or absolute amount of the value of the investor’s production. These measures are essentially the same as local sourcing or import substitution requirements as the investor is obliged in both cases to source inputs locally rather than import.” (Negotiating Group on Trade-Related Investment Measures, Submission by the United States, GATT Doc. MTN.GNG/NG12/W/9, February 9, 1988.)

\(^{48}\) According to the USTR, while “a list of products subject to non-automatic import licensing procedures is available ... specific information related to non-automatic import licensing requirements and explanations for rejections of non-automatic import license applications are lacking. The lack of transparency surrounding these procedures creates additional burdens for U.S. exporters.” (Office of the USTR, National Trade Estimate Report on Foreign Trade Barriers, March 2020.) Article X of the WTO’s General Agreement on Tariffs and Trade “requires Members to publish promptly laws, regulations, judicial decisions and administrative rulings of general application, including those pertaining to requirements on imports or exports and to administer them in a uniform, impartial and reasonable manner.” (WTO, “Technical Information on Import Licensing”)
of low interest financing, price support programs, tax exemptions, and tax credits.

- **Government Procurement.** The Brazilian government generally grants procurement preference to firms that produce in Brazil and that fulfill certain economic stimulus requirements, such as generating employment or contributing to technological development. SOEs usually may only subcontract services to U.S. and other foreign firms if domestic expertise is unavailable. In addition, there are local content requirements for all oil companies operating in Brazil’s upstream exploration and production phases, including Petrobras. Brazil is not a party to the GPA. However, it has been an observer to the WTO Committee on Government Procurement since 2017, and in May 2020, formally submitted its application to accede to the GPA, which would increase government procurement market access for foreign companies in Brazil.

- **Intellectual Property Rights (IPR) Protection.** The United States has longstanding concerns about Brazil’s enforcement of IPR. Brazil remained on the Special 301 “Watch List” in USTR’s 2020 Special 301 Report for continued IPR enforcement challenges, including high levels of counterfeiting and piracy, both online and in physical markets, and long delays in issuing patents (average patent pendency is 10 years). The USTR has expressed concerns about the lack of protection against unfair commercial use of undisclosed test results and other data generated to obtain marketing approval for pharmaceutical products.

- **Services Barriers.** Brazil imposes a fixed tax on foreign films released in theaters and has other encumbered practices for foreign film distribution. There are also content quotas on subscription television services, costly and time-consuming procedures for express delivery services, improved but still difficult entry into the insurance and reinsurance businesses, and local content requirements and redundant and excessive testing of telecommunications equipment.

- **Investment Barriers.** Brazil imposes restrictions on foreign purchase and lease of agricultural land. A draft bill, which would lift some of the limits on foreign ownership of agricultural land, has been awaiting a vote in the Brazilian Congress since 2015.

**U.S.-Brazil Foreign Investment**

Investment plays an important and growing role in U.S.-Brazil commercial ties, and analysts generally contend that a trade agreement could also significantly boost bilateral foreign direct investment (FDI) flows. In particular, a trade agreement could expand U.S. market access and investor protections in Brazil. However, it would need to overcome unique challenges, such as state-driven strategic investment policies and the strong presence of Brazil’s SOEs in investment activity. The United States and Brazil do not have a bilateral investment treaty (BIT) or a Trade

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49 Brazil has been on the Special 301 “Priority Watch List” or “Watch List” every year since 1989, with the exception of 1998, for continued IPR enforcement challenges.

50 According to 2017 study, “[a]mong Latin American countries, Brazil has the largest generic drug sector, representing almost 28% of the country’s pharmaceutical sales.” (Elize Massard da Fonseca and Kenneth C Shadlen, “Promoting and Regulating Generic Medicines: Brazil in Comparative Perspective,” Revista Panamericana de Salud Pública, 2017.)
and Investment Framework Agreement (TIFA), although discussions in the past have touched on all these themes without an agreement.

According to the U.S. Bureau of Economic Analysis (BEA), U.S. investment in Brazil, the largest economy in Latin America next to Mexico, is relatively small. It represents 1.4% of the cumulative stock of U.S. direct investment abroad (U.S. FDI stock) (Figure 7). While U.S. investment in Brazil as a share of total U.S. investment abroad has fluctuated in recent years, it is significantly smaller than two decades ago, when it stood at around 3.0%.

U.S. FDI stock in Brazil, on a historical-cost basis, was $81.7 billion in 2019 (Table 2), a $2.7 billion (3.4%) increase from 2018. Since 2017, it has remained above the peak of $76.8 billion reached in 2012. Most U.S. investment in Brazil, as well as most Brazilian investment in the United States, is in manufacturing. The stock of Brazilian FDI in the United States increased from $7.3 billion in 2009 to $45.3 billion in 2019 (Figure 7).

**Figure 7. U.S.-Brazil FDI**

Source: CRS presentation of data from the U.S. Bureau of Economic Analysis.

**Table 2. Investment Position (FDI Stock) in 2019**

<table>
<thead>
<tr>
<th>Total</th>
<th>Industry</th>
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<tbody>
<tr>
<td></td>
<td>Total</td>
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<td></td>
<td>(in billions of U.S. dollars)</td>
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<tr>
<td></td>
<td>Mining</td>
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<tr>
<td>U.S. Direct Investment Abroad (on a historical-cost basis)</td>
<td></td>
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<tr>
<td>World</td>
<td>$5,959.6</td>
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<tr>
<td>Latin Americab</td>
<td>911.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>81.7</td>
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<tr>
<td>Mexico</td>
<td>100.9</td>
</tr>
<tr>
<td>FDI in the United States (UBO)c</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>$4,458.4</td>
</tr>
<tr>
<td>Latin Americab</td>
<td>227.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>45.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>42.9</td>
</tr>
</tbody>
</table>

**Source:** CRS presentation of data from the U.S. Bureau of Economic Analysis.

**Notes:** (a) Excludes depository institutions. (b) Latin America and Other Western Hemisphere (excluding Canada). UK Islands in the Caribbean (including the British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands) and Bermuda account for 33.0% (or $300.5 billion) and 28.3% (or $262.4 billion), respectively, of total U.S. direct investment in Latin America. (c) According to BEA, the ultimate beneficial owner (UBO) “is that person, proceeding up a U.S. affiliate’s ownership chain, beginning with and including the foreign parent, that is not owned more than 50 percent by another person. The country of ultimate beneficial owner is often the same as that of the foreign parent, but it may be a different country or the United States.”

**U.S.-Brazil Trade Talks**

In March 2019, Presidents Trump and Bolsonaro met in Washington, DC; it was the Brazilian president’s first bilateral visit abroad. President Bolsonaro was joined by seven of his twenty-two ministers, including the economic and foreign affairs ministers. During this visit, the two...
countries defined an agenda prioritizing cooperation in trade and investments, as well as defense, security, and innovation. 51 Both leaders expressed an interest in eventually entering into a comprehensive trade agreement. The initial agenda was to build a “Prosperity Partnership” to increase jobs, investment, and trade, with emphasis on trade facilitation and good regulatory practices. 52

“Mini Trade Agreement”

On March 7, 2020, Presidents Trump and Bolsonaro agreed to accelerate a bilateral dialogue that began under the Obama Administration in the 2011 Agreement on Trade and Economic Cooperation (ATEC). 53 U.S. and Brazilian government trade officials subsequently began talks on April 16 to conclude in 2020, a partial or “mini trade agreement” on trade facilitation and good regulatory practices. The goal was for the agreement to potentially serve as a foundation for more comprehensive talks if the two countries move forward on a trade agenda. The so-called mini deal would have provisions similar to chapters in agreements such as USMCA, but it would not include any of the major market opening measures or rules and disciplines, including enforcement mechanisms, in most U.S. FTAs. 54

On October 19, 2020, the United States and Brazil announced the successful conclusion of the Protocol on Trade Rules and Transparency (Protocol), which complements Brazil’s domestic reforms to improve competitiveness, regulatory reform and economic freedom. The Protocol adds three annexes to the ATEC: Trade Facilitation and Customs Administration, Good Regulatory Practices, and Anti-Corruption. The Protocol does not require U.S. congressional approval, but will need approval by the Brazilian Congress prior to its entry into force. While some Members of Congress see the trade deal as a way to increase U.S. investment and promote U.S. values in the Hemisphere, others oppose an expanded economic partnership under the Bolsonaro Administration due to human rights, environmental and other concerns.

Annex I: Trade Facilitation and Customs Administration

Annex I would expand on the multilateral WTO Trade Facilitation agreement. Key provisions include

- online publication of customs and other border information,
- single window enabling traders to submit information requirements through one entry point,


53 The U.S.-Brazil Agreement on Trade and Economic Cooperation was negotiated with Brazil under the Obama Administration in 2011 to expand trade relations. The agreement includes commitments to form a bilateral trade and economic commission with the objective of promoting cooperation between the two countries. For more information, see Bilaterals.org, *U.S.-Brazil ATEC (2011)*, available at https://www.bilaterals.org/?us-brazil-atec-2011.

54 The United States-Mexico-Canada Agreement (USMCA), which entered into force on July 1, 2020, is the most recent U.S. free trade agreement (FTA). It is comprised of 34 chapters, including chapters on trade facilitation, regulatory practices, and anti-corruption, and 12 side letters. It retains most of the market-opening commitments under the North American Free Trade Agreement (NAFTA) and makes notable changes to rules and disciplines such as investment, government procurement, and intellectual property protection. It adds new chapters on digital trade, state-owned enterprises, and currency misalignment. For more information, see CRS Report R44981, *The United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and Ian F. Fergusson.
• automated customs procedures to increase efficiency including electronic systems for traders, acceptance of electronic documents under specific international standards,

• a joint work plan to advance an Authorized Economic Operator (AEO) mutual recognition agreement (customs-to-business partnerships facilitating legitimate low-risk trade),

• advance rulings (prior “binding” information about tariff classification and customs treatment applied to specific goods at time of importation),

• mechanisms to ensure consistent customs treatment from port to port,

• disciplines on penalties imposed by customs administration in each country, and

• expanded customs cooperation, including on trade enforcement.

Annex II: Good Regulatory Practices

This annex, the second agreement of its kind, is similar to the good regulatory practices framework in the U.S.-Mexico-Canada Agreement (USMCA). It would aim to provide greater transparency in Brazilian regulatory procedures through the following:

• online publication of draft regulations and opportunity for comments,

• a website with information on regulations and regulators’ specific responsibilities,

• encouraging the use of a Regulatory Impact Assessment to evaluate draft regulations,

• review of regulations for their effectiveness and identification of opportunities to reduce regulatory burden,

• encouragement for regulatory authorities to use “high quality” information and for transparency about the source of information, and

• recognition of the role of advisory groups and the opportunity to provide input.

Annex III: Anti-Corruption

This annex contains anti-corruption commitments, including

• obligations to adopt and maintain measures to combat bribery and corruption,

• provisions to preclude the tax deductibility of bribes, recovery of proceeds of corruption, denial of safe haven for foreign public officials that engage in corruption,

• sanctions for corrupt acts,

• rules of integrity in maintaining financial records,

• procedures to report corrupt acts and whistleblower protection,

• policies and procedures to promote accountability of public officials, and

• obligations for public sector and civil society participation in anticorruption efforts.
Ongoing Trade Issues

The United States and Brazil are also involved in market access negotiations on steel, ethanol, sugar and corn. On September 11, 2020, the two governments issued a joint statement stating that they have held consultations on bilateral trade on ethanol and decided to pursue discussions for an arrangement to improve market access for ethanol and sugar in Brazil and the United States and consider an increase in market access for corn in both countries.55

Ethanol, Sugar, and Corn

In August 2020, Brazil’s tariff-rate quota (TRQ) on ethanol imports from the United States expired. The TRQ allowed duty-free entry of 750 million liters of ethanol; any imports over that amount were subject to a 20% tariff. The two countries are discussing ways to resolve this issue and ensure fair market access on ethanol so that the ethanol industries in both countries “will be treated fairly and benefit from future regulatory changes on biofuel products in Brazil and the United States.” The discussions, which started on September 14, 2020, are scheduled to take place over a 90-day period and are to cover improved market access for ethanol, sugar, and corn in the United States and Brazil. During this time, Brazil is to maintain a pro-rated TRQ for ethanol proportionate to the total annual volume of the TRQ that was in force on August 30, 2020.56 In August 2020, a group of 20 U.S. lawmakers wrote a bipartisan letter asking the United States Trade Representative to urge the Brazilian government to terminate the ethanol TRQ and “prohibitive 20% tariff” on out-of-quota products from the United States and reinstate the duty-free exemption for U.S. ethanol from MERCOSUR’S CET that was in effect between 2012 and 2017.57

U.S. Section 232 Tariffs on Brazilian Steel

In March 2018, President Trump issued two proclamations imposing tariffs on U.S. imports of certain steel and aluminum products, including products from Brazil, using presidential powers granted under Section 232 of the Trade Expansion Act of 1962.58 Section 232 authorizes the President to impose restrictions on certain imports based on an investigation and affirmative determination by the Department of Commerce that the targeted import products threaten to impair national security. The proclamations outlined the President’s decisions to impose tariffs of 25% on steel and 10% on aluminum imports, with some flexibility on the application of tariffs by country. The Administration later excluded Brazil from Section 232 tariffs after the Brazilian government agreed to a quota allotment restricting exports of Brazilian steel to the United States. In August 2020, President Trump issued a proclamation announcing a tightening of the quota on U.S. imports of steel from Brazil. The proclamation states that the United States and Brazil will hold further consultations in December 2020 to discuss steel trade between the two countries.59

56 Ibid.
57 Letter from Representative Darin LaHood, Representative Adrian Smith, and 18 other Members of Congress to Office of the U.S. Trade Representative, Ambassador Robert E. Lighthizer, August 20, 2020. Representative LaHood is co-chair of the House U.S.-Brazil Caucus.
58 For more information, see CRS Report R45249, Section 232 Investigations: Overview and Issues for Congress, coordinated by Rachel F. Fefer and Vivian C. Jones.
59 President Donald J. Trump, Proclamation on Adjusting Imports of Steel into the United States, August 28, 2020.
Trade journals report that the tightening of the quota of steel imports from Brazil is in response to Brazil’s restrictions on U.S. ethanol exports.60

Policy Issues and Implications

Foreign Policy Implications

As the fifth-largest country and the ninth-largest economy in the world, Brazil plays an important role in global governance. Over the past 20 years, Brazil has forged coalitions with other large, developing countries to push for changes within multilateral institutions and to ensure that global agreements on issues ranging from trade to climate change adequately protect their interests. Brazil also has taken on a greater role in promoting peace and stability around the world by engaging in development cooperation, contributing to U.N. peacekeeping missions, and mediating conflicts in South America and further afield. Although recent domestic challenges have led Brazil to turn inward and weakened its appeal globally, the country continues to exert influence on international policy issues that affect the United States.

Some analysts view Brazil as a “global swing state” with the potential to either reinforce or undermine the rules-based international order that the United States and its allies established in the aftermath of World War II.61 Given Brazil’s strategic importance, they argue that the United States should more actively engage the country and devote increased attention and resources to forging a close partnership. Pursuing a free trade agreement, for example, could bring Brazil into closer alignment with the United States by strengthening bilateral commercial ties and reducing Brazil’s economic dependence on China.

Although a comprehensive trade agreement may be difficult to conclude in the near-term, the new Protocol on Trade Rules and Transparency could reinforce recent advances in the U.S.-Brazil relationship. As noted previously, U.S.-Brazilian relations have warmed over the past two years, but the countries’ increased cooperation appears to be based, in part, on the personal rapport between President Trump and President Bolsonaro. The recently concluded Protocol could help institutionalize improved ties by providing a framework for continued engagement that will last beyond the current administrations.

A more far-reaching trade agreement could have implications for global efforts to promote democracy and mitigate climate change. Some human rights and environmental advocates have urged the United States not to conclude any type of trade agreement with the Bolsonaro Administration.62 They argue that an agreement would bolster Bolsonaro politically, endangering democracy and human rights in Brazil as well as efforts to conserve the Amazon Rainforest. Others maintain that the United States currently has little leverage in its relations with Brazil, partly due to the lack of a bilateral free trade agreement.63 They argue that in the absence of more significant economic ties, the United States is unlikely to be able to exert influence on the


62 See, for example, Gimena Sánchez-Garzoli, “The United States Must Not Enter into a Free Trade Agreement with Brazil Given President Bolsonaro’s Frontal Assault on Human Rights,” Washington Office on Latin America, June 24, 2020.

63 See for example, Ricardo Mendes, “Trump or Biden: What Will it Mean for Brazil and Bolsonaro?,” remarks at the Wilson Center, Brazil Institute, October 6, 2020.
Brazilian government to improve environmental protections or address other concerns. Modern U.S. FTAs include chapters on the environment with enforceable commitments along with cooperative mechanisms that could enhance standards in other countries.

Trade and Economic Implications

The effects of a potential U.S.-Brazil trade agreement on the U.S. economy, and the mechanisms by which it could affect U.S. economic growth and employment, are difficult to quantify. This is partly due to the challenges associated with disentangling the effects of trade liberalization on both economies from those of other domestic and global developments. Economic analyses can be constrained by a lack of data and other theoretical and practical limitations. While there is a general consensus among economists that, in the aggregate, the economic benefits of such an agreement would outweigh the costs, the reality is that it would likely present both opportunities and challenges for the United States. Each country may have import-sensitive sectors where some U.S. businesses and workers may benefit (e.g., those who can expand their production and get higher-paying jobs), while others bear the costs (e.g., those who are displaced because of import competition) through greater competition achieved through greater bilateral trade liberalization.

For Brazil, a trade agreement with the United States could potentially serve as a force for encouraging greater economic openness and needed economic reform. A U.S.-Brazil trade agreement would likely cover a range of policy issues that have cross-border implications, including trade in goods and services, investment, regulatory and other NTBs, government procurement, e-commerce, agricultural barriers, IPR, SOEs, worker rights, and the environment. As such, it could serve as a catalyst for economic growth and development that can have a significant impact on Brazil’s economy—and the region’s—beyond what would be predicted from traditional trade models. This could be particularly important as Brazil tries to raise its own standards, implement domestic economic reforms, and continue to integrate into the regional and global economies.

Many trade analysts, scholars, and policymakers contend that an agreement—whether narrowly focused (lower or zero tariffs only) or comprehensive (lower or zero tariffs and significant reductions in NTBs)—is likely to yield net gains in terms of U.S. exports, employment, and growth. Initially, most of the gains could be expected to come from the reduction or elimination of Brazil’s tariffs, which are relatively high on average. In addition, while reductions in NTBs are possible, NTBs in Brazil differ in nature and are considered to be far-reaching, so their complete elimination may not be politically or technically feasible.

While the economic effects of a free trade agreement cannot always be quantified or always represented in trade models, estimates of the potential benefits and costs may help to inform trade policy debates. For example, a 2016 joint study by the Brazil-U.S. Business Council and Trade Partnership Worldwide LLC found that a comprehensive trade agreement, once fully implemented, would have a positive impact on the U.S. economy. The study examined the possible effect of a hypothetical agreement that fully eliminates U.S. and Brazilian tariffs affecting bilateral trade and reduces by 50% actionable nontariff measures affecting goods and services traded between the two countries. The results indicated that, by 2030, U.S. GDP would rise by $24 billion (0.11%), U.S. employment could expand by close to 100,000 jobs (0.05%), and U.S. exports to Brazil would increase by $62 billion (78%). Ultimately, the impact of any

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65 For some of their estimates, the study assumed, among other things, that the Trans-Pacific Partnership (TPP), the Trans-Atlantic Trade and Investment Partnership (T-TIP), and the Trade in Services Agreement would be in full effect.
potential agreement would depend on the range of issues covered and the extent to which barriers are reduced between the two countries.

Congressional Issues and Outlook

While an FTA between the United States and Brazil may continue to be an elusive proposition, government-to-government dialogues have moved towards a more collaborative relationship. Congress may consider exploring prospects for enhancing economic and trade relations with Brazil under a “building block approach” towards an eventual FTA. If the United States and Brazil eventually enter into formal FTA negotiations in the years to come, Congress would have to approve such an agreement under Trade Promotion Authority (TPA). TPA is the time-limited authority that Congress uses to set trade negotiating objectives, establish notification and consultation requirements, and consider implementing legislation for reciprocal trade agreements under expedited procedures, provided they meet certain statutory requirements. Under the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (TPA-15) (P.L. 114-26), TPA is authorized through July 1, 2021. The 117th Congress may consider reauthorization of TPA and negotiating objectives such as those in TPA-15. Many Members of Congress have expressed interest in the advancement of environmental, human and labor rights, and tax reform in Brazil before an FTA could be considered.

The new Protocol on Trade Rules and Transparency Protocol does not include provisions eliminating tariffs or nontariff barriers to trade, and, does not require any change in U.S. laws that Congress would have to approve by Congress. The Brazilian Congress would need to approve it, however, before it can enter into force. Before the United States and Brazil could move forward with negotiations on a comprehensive free trade agreement (FTA), it is likely that there would have to be more bipartisan support in the U.S. Congress in addition to support for negotiating an agreement by the President of the United States. Another issue before moving forward on possible FTA talks relates to Brazil’s membership in MERCOSUR. If Brazil were to decide to negotiate an FTA with the United States, it would need to work with other MERCOSUR parties to change the group’s rules.

Congress may examine a framework for furthering trade ties with Brazil and addressing trade issues, such as intellectual property rights protection and digital trade. Several U.S. policymakers have expressed increasing interest in expanding trade ties with Brazil by using USMCA chapters as templates for smaller agreements. Other Members of Congress objected because the U.S.-Brazil 2020 protocol on trade rules and transparency because it does not include agricultural provisions. They were also concerned that Brazil would be unwilling to address “their long-held tariff and nontariff barriers for agriculture.” U.S. industry associations have expressed hope that the protocol updating the U.S.-Brazil ATEC would lead to more ambitious talks for a comprehensive agreement. U.S. express shipment companies, for example, are urging the Administration to continue trade talks, stating that Brazil has burdensome and protectionist


66 See CRS Report RL33743, Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy, by Ian F. Fergusson, and CRS In Focus IF10038, Trade Promotion Authority (TPA), by Ian F. Fergusson.

67 Letter from Representative Ron Kind, Member of Congress, to The Honorable Robert E. Lighthizer, U.S. Trade Representative, and The Honorable Sonny Perdue, Secretary of Agriculture, October 19, 2020.
barriers that create a competitive disadvantage for the industry. U.S. ethanol producers have also stated their hope that future talks could address Brazil’s trade barriers to U.S. ethanol exports.

The presumptive Biden Administration’s trade policy could include an early review of ongoing trade talks with Brazil and other countries, as well as the identification of future U.S. priorities and the direction it wishes to take on these issues. The former Vice President did not make trade a central issue in his campaign and or offer details on trade issues.

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69 Geoff Cooper, President & CEO, Renewable Fuels Association, letter to President Donald J. Trump, October 22, 2020.