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Brazil: Background and U.S. Relations

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Summary

The United States traditionally has enjoyed robust economic and political relations with Brazil, which is the fifth most populous country and ninth-largest economy in the world. Brazil is recognized by the Obama Administration as a "major global player" and an "indispensable partner" on issues ranging from international development to climate change. Administration officials have often highlighted Brazil's status as a multicultural democracy, referring to the country as a natural partner that shares values and goals with the United States. Bilateral ties have been strained from time to time as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements. U.S.-Brazilian relations were particularly strained following revelations in 2013 of alleged National Security Agency (NSA) activities inside Brazil. Cooperation has improved over the past year and a half, however, culminating in a June 2015 presidential meeting at the White House. Brazil and the United States are currently working together to address an outbreak of the Zika virus in Brazil and other Western Hemisphere nations. Other ongoing areas of engagement include trade, energy, security, racial equality, and the environment.

Domestic Situation

After narrowly winning a second-round runoff election in October 2014, President Dilma Rousseff of the center-left Workers Party was inaugurated to a second four-year term on January 1, 2015. Economic conditions in Brazil have deteriorated significantly in recent years, and Rousseff is now struggling to keep her campaign promises to protect social welfare programs and maintain low unemployment while simultaneously implementing austerity measures that many economists argue are necessary to attract investment and ultimately boost growth. Although international investors have advocated for a more rapid economic adjustment, much of Rousseff's political base is opposed to the policy shift. The economy contracted by an estimated 3.8% in 2015 and is expected to contract by 3.5% this year.

Brazil's deep economic recession has weakened Rousseff's political standing, which was already fragile as a result of a major corruption scandal that has implicated numerous officials in the governing coalition. In December 2015, 11% of Brazilians approved of Rousseff's job performance while 65% disapproved. Some nominally allied legislators have distanced themselves from Rousseff, opposing her administration's austerity measures and other key portions of her policy agenda. Moreover, the president of Brazil's Chamber of Deputies has initiated impeachment proceedings against the president.

Legislative Developments

The 114th Congress has approved two legislative measures that will influence U.S.-Brazil relations. As part of the Trade Preferences Extension Act of 2015 (P.L. 114-27), Congress renewed the Generalized System of Preferences (GSP) program, which provides non-reciprocal, duty-free tariff treatment to certain products imported from Brazil and other designated developing countries. In the Consolidated Appropriations Act, 2016 (P.L. 114-113), Congress authorized reforms to the International Monetary Fund (IMF) that had been pending since 2010 and will provide greater voting power to Brazil and other emerging economies. The act also provided foreign assistance for Brazil, including $10.5 million to support conservation programs in the Brazilian Amazon. Two other bills introduced in 2015 are designed to pressure Brazil to amend its constitution to allow the extradition of Brazilian nationals; H.R. 2784 would suspend foreign assistance to Brazil, and H.R. 2785 would suspend the issuance of visas to Brazilian nationals, until it changes its extradition policies.

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Recent Developments

- On February 9, 2016, the Obama Administration released its FY2017 budget request. According to the initial release, the Administration is requesting at least $925,000 in foreign aid for Brazil next year (see "U.S. Foreign Assistance and Trilateral Development Initiatives").
- On January 19, 2016, the International Monetary Fund (IMF) published an updated *World Economic Outlook* that revised down its forecast for the Brazilian economy. The report estimated that the Brazilian economy contracted by 3.8% in 2015 and forecasted an economic contraction of 3.5% for Brazil in 2016 (see "Economic Challenges").
- On December 18, 2015, President Obama signed into law the Consolidated Appropriations Act, 2016 (P.L. 114-113). Among other provisions, the act authorized reforms to the IMF that had been pending since 2010 and will provide greater voting power to Brazil and other emerging economies. It also provided foreign assistance for Brazil, including $10.5 million to support conservation programs in the Brazilian Amazon (see "Amazon Conservation").
- On December 2, 2015, Brazilian Chamber of Deputies President Eduardo Cunha initiated impeachment proceedings against President Rousseff for allegedly violating the country's fiscal responsibility law (see "Political Challenges").
- On November 11, 2015, Brazil's Ministry of Health declared a "public health emergency of national importance" in response to a sharp increase in the number of infants born with microcephaly, a birth defect that may accompany significant, permanent brain damage. The increase is suspected, but not yet confirmed, to be linked to the emergence of Zika virus in Brazil (see "Zika Virus Response").
- On June 30, 2015, President Rousseff met with President Obama at the White House. While the meeting produced few major policy announcements, it demonstrated both countries' willingness to move beyond a difficult period in bilateral relations in the aftermath of disclosures about National Security Agency (NSA) activities in Brazil (see "U.S.-Brazil Relations").
- On June 29, 2015, President Obama signed into law the Trade Preferences Extension Act of 2015 (P.L. 114-27), which extended the Generalized System of Preferences (GSP) program through 2017. GSP provides nonreciprocal, duty-free tariff treatment to certain products imported from Brazil and other designated developing countries. Authorization for the program had previously expired on July 31, 2013 (see "Bilateral Trade and Investment").
- On June 25, 2015, the Brazilian Congress approved two bilateral defense cooperation agreements with the United States that had been pending since 2010 (see "Defense").

Figure 1. Map of Brazil

Source: Map Resources. Adapted by CRS Graphics.

Political and Economic Situation

President Dilma Rousseff of the center-left[1] Workers Party (*Partido dos Trabalhadores*, PT) first assumed office in January 2011. Her predecessors, Presidents Fernando Henrique Cardoso (1995-2002) and Luis Inácio Lula da Silva (2003-2010), made notable progress in consolidating

[1] The PT was founded as a leftist party, but it moved toward the ideological center upon taking office in 2002. Timothy J. Power and Cesar Zucco Jr., "Estimating Ideology of Brazilian Legislative Parties, 1990-2005," *Latin American Research Review*, vol. 44, no. 1, 2009.

democratic governance, stabilizing the economy, and reducing the country's vast social disparities. Brazil also benefitted from favorable international economic conditions in the decade prior to her election, which, combined with the policies of her predecessors, facilitated stronger economic growth. Economic conditions began to deteriorate early in Rousseff's term, however, and her administration struggled throughout her first four years in office to address weak growth and popular discontent. Nevertheless, Rousseff was narrowly reelected.

Now over a year into her second term, Rousseff is struggling to keep her campaign promises to protect social welfare programs and maintain low unemployment while simultaneously implementing austerity measures that many economists maintain are necessary to turn around Brazil's economy. Rousseff's political standing has weakened significantly as the economy has contracted and revelations about a major corruption scandal have come to light. Her public approval rating has drastically declined, and she has lost the support of many nominally allied legislators, some of whom have joined with the political opposition to initiate impeachment proceedings against her.

Brazil at a Glance

Leadership: President Dilma Rousseff (PT), Vice President Michel Temer (PMDB), Senate President Renan Calheiros (PMDB), Chamber of Deputies President Eduardo Cunha (PMDB)

Land Area: 3.3 million square miles (slightly smaller than the United States)

Population: 204.5 million (2015 est.)

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

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

Official Language: Portuguese

Gross Domestic Product (GDP): $1.8 trillion (2015 est.)

GDP per Capita: $8,802 (2015 est.)

Top Exports: soybeans, iron ore, oil, meat, and machinery (2015)

Life Expectancy at Birth: 76 years (2015)

Adult Literacy Rate: 92.6% (2015)

Poverty Rate: 18% (2013)

Extreme Poverty Rate: 5.9% (2013)

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

Background

Brazil occupies almost half of the continent of South America and is the fifth most populous country in the world with 204.5 million citizens.[2] The country declared independence from Portugal in 1822, initially establishing a constitutional monarchy and retaining a slave-based, plantation economy. Brazil abolished slavery in 1888 and became a republic in 1889, but economic and political power remained concentrated in the hands of large rural landowners and the vast majority of Brazilians remained outside the political system. The authoritarian government of Getúlio Vargas (1930-1945) began the incorporation of the working classes but exerted strict control over labor as part of its broader push to centralize power. Vargas also

[2] Instituto Brasileiro de Geografia e Estatística (IBGE), *Estimativas da População Residente no Brasil e Unidades da Federação com Data Referëncia em 1° de Julho de 2015*, September 15, 2015.

increased the state's role in the economy and pursued import-substitution industrialization. Brazil enjoyed multiparty democracy between 1945 and 1964, but experienced polarization and instability as economic growth slowed, inflation increased, and populism gained strength.

The Brazilian military seized power in a 1964 coup, ushering in two decades of authoritarian rule (1964-1985). Although repressive, the Brazilian military was not as brutal as those in some other South American countries. It nominally allowed the judiciary and Congress to function during its tenure, but stifled representative democracy and civic action, carefully preserving its influence during one of the most protracted transitions to democracy to occur in Latin America. According to Brazil's National Truth Commission, at least 434 people were killed or "disappeared" by the dictatorship.[3] Brazil continued to pursue state-led development during most of the military era, and industrialization helped foster the transformation of Brazil into a predominantly urban society.

Brazil restored civilian rule in 1985, and a national constituent assembly, elected in 1986, promulgated a new constitution in 1988. The constitution, as amended, establishes a liberal democracy with a strong president, a bicameral Congress consisting of the 513-member Chamber of Deputies and the 81-member Senate, and an independent judiciary. Power is somewhat decentralized under the country's federal structure, which includes 26 states, a federal district, and some 5,570 municipalities.

Brazil experienced economic recession and political uncertainty during the first decade after the political transition. Numerous efforts to control runaway inflation failed, and two elected presidents did not complete their terms; one died before taking office, and the other was impeached on corruption charges.[4]

Cardoso Administration (1995-2002)

Brazil's economic and political situation began to stabilize under President Fernando Henrique Cardoso, who was elected to serve two terms between 1995 and 2002. A prominent sociologist of the centrist[5] Brazilian Social Democracy Party (*Partido da Social Democracia Brasileira*, PSDB), Cardoso's initial election in 1994 was largely the result of the success of the anti-inflation "*Real* Plan" that he implemented as finance minister under President Itamar Franco (1992-1994). The plan consisted of a new currency (the *real*) pegged to the U.S. dollar, a more restrictive monetary policy, and a severe fiscal adjustment that included a 9% reduction in federal spending and an across-the-board tax increase of 5%. Prices immediately began to stabilize, with annual inflation falling from 2,730% in 1993 to about 18% in 1995.[6]

Cardoso continued the economic reform push after taking office, privatizing some state-owned enterprises and gradually opening the Brazilian economy to foreign trade and investment. These policies contributed to stronger growth rates for a few years, but macroeconomic stability remained elusive. Following the 1997 East Asian and 1998 Russian financial crises, concerns

[3] Comissão Nacional da Verdade, *Relatório*, Volume 1, December 2014, p. 963.

[4] *Brazil: A Country Study*, ed. Rex A. Hudson, 5th ed. (Washington, DC: Library of Congress, 1998).

[5] The PSDB was founded as a center-left party by dissidents from the social democratic wing of the Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB). It has moved to the right since implementing market-oriented economic reforms during the Cardoso Administration. Power and Zucco, 2009, op. cit.

[6] CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J. F. Hornbeck.

about Brazil's overvalued exchange rate and substantial fiscal deficits sparked a massive capital flight. Brazil adopted a floating exchange rate, and the *real* lost 40% of its value.[7]

Although Cardoso's popularity declined as Brazil struggled with these economic challenges, most analysts credit him with laying the foundation for the macroeconomic stability that Brazil has experienced since he left office. In the aftermath of the 1998-1999 financial crises, Brazil adopted the three main pillars of its macroeconomic policy: a floating exchange rate, a primary budget surplus,[8] and an inflation-targeting monetary policy. Cardoso also established a series of targeted income transfer programs designed to alleviate poverty. These economic and social policies have been maintained and built upon by subsequent administrations.

Lula Administration (2003-2010)

Luis Inácio Lula da Silva—known as Lula—was elected president of Brazil in 2002, his fourth attempt at the presidency as the candidate of the PT, which he helped found as a metalworker and union leader. During his first term, Lula maintained the market-oriented economic policies associated with his predecessor. He tightly controlled expenditures, raised the primary budget surplus, and granted additional autonomy to the Central Bank. At the same time, he placed greater emphasis on reducing poverty, reorganizing and expanding some of the social programs that had been initiated under Cardoso. The most high-profile program, *Bolsa Familia* ("Family Grant"), provides monthly cash transfers to poor families that ensure their children attend school and receive proper medical care. Lula's agenda stalled toward the end of his first term as several top PT officials were implicated in a vote-buying scheme. The scandal ultimately led to the convictions of 25 people—including Lula's former chief of staff—in 2012.[9] Nevertheless, Lula was reelected in 2006.

After primarily focusing on maintaining economic stability during his first term, Lula established a larger role for the Brazilian state in economic development during his second term. He expanded *Bolsa Familia* and launched new social welfare programs. He also continued to raise the minimum wage, which, adjusted for inflation, increased nearly 64% during his eight years in office.[10] In response to the global financial crisis, the Lula Administration implemented a series of stimulus measures designed to offset declines in global demand with increased domestic consumption. Analysts have credited the administration's timely policy response for mitigating the effects of the crisis and facilitating recovery;[11] the Brazilian economy contracted by 0.2% in 2009 before rebounding with 7.6% growth in 2010.[12] Moreover, Lula won legislative approval for a new regulatory framework that increased the state's role in the exploitation of Brazil's considerable offshore oil reserves and is designed to ensure that those resources are used to fuel long-term economic and social development.

Although some observers criticized Lula for not doing more to advance certain policy reforms,[13] most give him credit for improving social inclusion in Brazil. Between 2001 and 2011, the

[7] Ibid; Riordan Roett, "How Reform Has Powered Brazil's Rise," *Current History*, February 2010.

[8] The primary balance is equal to government revenues minus expenditures prior to subtracting debt payments.

[9] "Brazil Politics: Supreme Court Gives Tough Sentences in 'Mensalão' Trial," Economist Intelligence Unit, October 26, 2012.

[10] Cristiano Romero, "O Legado de Lula na Economia," *Valor Online* (Brazil), December 29, 2010.

[11] See, for example, International Monetary Fund (IMF), "IMF Executive Board Concludes 2010 Article IV Consultation with Brazil," August 5, 2010.

[12] IMF, *World Economic Outlook Database, October 2015,* October 6, 2015.

[13] See, for example, "Brazil's Presidential Election: Lula's Legacy," *Economist*, September 30, 2010; and Paulo Kliass,

percentage of the population living in poverty fell from 37.5% to 20.9%, and the percentage living in extreme poverty fell from 13.2% to 6.1%.[14] Income inequality was also reduced, with the Gini coefficient[15] falling from 0.64 to 0.56 during the same time period.[16] While these advances were partially the result of stronger economic growth driven by a boom in international demand for Brazilian commodities, government policy also played a role. According to a 2012 study, about 28% of the decline in income inequality in Brazil between 2001 and 2009 was attributable to increases in the minimum wage, and another 13% of the decline was attributable to the *Bolsa Família* program.[17]

Rousseff Administration (2011-Present)

President Dilma Rousseff of the center-left PT was inaugurated to a second four-year term on January 1, 2015. Although she was originally elected in 2010 after promising to maintain the popular socioeconomic policies of President Lula, Rousseff struggled to address the country's deteriorating economic situation during her first term. She also had to contend with popular unrest, including mass demonstrations in June 2013, during which more than 1 million citizens took to the streets to express frustration with the stagnation in their living standards, call for better quality public services, and denounce corruption.[18] While the political opposition sought to capitalize on Rousseff's failure to meet citizens' rising expectations during the 2014 election campaign, Rousseff and the PT appear to have convinced many Brazilians that the opposition candidates would end popular social welfare programs and threaten the considerable socioeconomic gains made in Brazil since 2003. She held off two strong challengers and was narrowly reelected with 51.6% of the vote in a second round runoff.[19]

Now over a year into her second term, Rousseff continues to face significant economic and political challenges. On the economic front, Rousseff is struggling to keep her campaign promises to protect social welfare programs and maintain low unemployment while implementing austerity measures that many economists assert are necessary to encourage investment and ultimately boost growth (see "Economic Challenges"). Rousseff's political standing has declined precipitously as economic conditions have continued to deteriorate and a major corruption scandal has implicated numerous officials in the governing coalition. Rousseff has lost the support of many nominally allied legislators, some of whom have joined with the political opposition to initiate impeachment proceedings against her (see "Political Challenges").

"Lula's Political Economy: Crisis and Continuity," *North American Congress on Latin America (NACLA)*, March/April 2011.

[14] U.N. Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 2013*, December 2013, p. 65.

[15] The Gini coefficient is a value between zero and one, where zero represents complete equality and one represents complete inequality.

[16] ECLAC, December 2013, op. cit., p. 70.

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

[18] "Brazil's Stormy June: Not Turkey or Egypt," *Latin American Security & Strategic Review*, June 2013.

[19] Tribunal Superior Eleitoral, "Estatísticas Eleitorais 2014," October 26, 2014.

Economic Challenges

Brazil experienced a rapid economic expansion between 2003 and 2010, driven by a boom in international demand—particularly from China—for Brazilian commodities such as meat, sugar, soybeans, iron ore, and crude oil. The initial expansion was reinforced by domestic consumption from Brazil's fast-growing middle class, which now accounts for a majority of the population. Annual economic growth averaged over 4% during that eight-year span, boosting employment and wages.[20] As China's economy decelerated and commodity prices began to fall, however, Brazil's economic growth slowed.[21]

During her first term, Rousseff sought to offset the weaker international economic situation by stimulating domestic consumption and protecting domestic industries. Her administration implemented a series of short-term tax cuts and provided subsidized credit through state banks. Although those measures initially helped keep unemployment near historic lows, they also eroded the country's primary budget surplus and helped push inflation to the upper edge of the government's targeted boundary (4.5% with a 2-point tolerance band). To mitigate the increase in inflation, the Rousseff Administration held down fuel and electricity prices, which, along with other interventions in the economy, deterred investment. Economic growth continued to slow, falling from 3.9% in 2011 to 0.1% in 2014.[22]

Facing further economic deceleration and the threat of Brazil losing its investment grade credit rating, President Rousseff began implementing a major shift in economic policy following her reelection. She appointed a new economic team to implement a series of austerity measures designed to stabilize the country's debt levels, encourage investment, and ultimately boost growth. The fiscal adjustment has included partial budget freezes, reductions in the number and size of government ministries, restrictions on certain pension and unemployment benefits, and reversals of several of the tax cuts granted during her first term. The Rousseff Administration has also allowed fuel and electricity prices to rise. At the same time, the Brazilian Central Bank has steadily raised the benchmark interest rate with the aim of bringing inflation back down to the 4.5% target.

Nevertheless, economic conditions in Brazil have continued to deteriorate. The economy contracted by an estimated 3.8% in 2015, and the International Monetary Fund (IMF) now expects it to contract by 3.5% in 2016.[23] The labor market has weakened considerably, with the formal economy shedding 1.5 million jobs in 2015.[24] Unemployment reached 9% in August-October 2015, up from 6.6% during the same quarter of 2014, and real median wages fell by 1% during the same time period.[25] Inflation remains high, amounting to 10.7% in 2015, eroding wages and the value of social welfare programs.[26] As a result of delays in the implementation of its fiscal adjustments and weaker-than-forecasted revenue collection, the Rousseff Administration

[20] IMF, *World Economic Outlook Database, October 2015,* October 6, 2015.

[21] John Lyons and Paul Kiernan, "How Brazil's China-Driven Commodities Boom Went Bust," *Wall Street Journal,* August 27, 2015.

[22] IMF, *World Economic Outlook Database, October 2015,* October 6, 2015.

[23] IMF, *World Economic Outlook Update,* January 19, 2016.

[24] "Brazil Loses 1.5 Mn Jobs in Formal Sector," EFE News Service, January 21, 2016.

[25] Instituto Brasileiro de Geografia e Estatística (IBGE), "PNAD Contínua: Desocupação Vai a 9,0% no Trimestre Encerrado em Outubro de 2015," press release, January 15, 2016.

[26] Rogerio Jelmayer, "Brazil Inflation Reaches Highest Level in 13 Years; Consumer-Price Index Rose 10.67% Last Year, Despite the Economic Contraction," *Wall Street Journal*, January 8, 2016; "Inflation Erodes Government Welfare Funds in Brazil," *Latin News Daily,* February 9, 2016.

was forced to abandon its 1.1% primary budget surplus target and finished 2015 with a budget deficit before interest payments of 1.9%.[27] Two of the three major credit ratings agencies have downgraded Brazil's sovereign credit rating to "junk" status, obliging many institutional investors to divest funds from the country.[28]

Many economists and international investors maintain that Brazil must implement more far-reaching economic adjustments. The IMF, for example, maintains that Brazil needs to quickly restore a fiscal surplus and put public debt on a downward path; bring inflation back down to the target range; and address structural impediments to growth, such as infrastructure bottlenecks, a relatively closed economy, and a complex and burdensome tax system.[29] Some economists assert that Brazil has lost market credibility and that the only way to regain it quickly would be to negotiate an adjustment program with the IMF.[30] President Rousseff did little to prepare her political base for an economic adjustment, however, having campaigned against austerity measures during the 2014 election. The Brazilian Congress, nominally controlled by Rousseff's coalition, has repeatedly sought to block, delay, and reverse the Administration's fiscal adjustments, and the ongoing political battle over a potential impeachment of Rousseff is likely to further delay efforts to address Brazil's economic challenges.

Political Challenges

In addition to addressing the deteriorating economic situation in Brazil, President Rousseff has had to manage the fallout of a major corruption scandal. According to Brazilian prosecutors, beginning in 2004, several construction and engineering firms colluded to systematically drive up the price of bids for contracts with the state-owned oil company, *Petróleo Brasileiro S.A.* (Petrobras). At least $3 billion from the inflated contracts was allegedly funneled to corrupt executives at the construction firms and Petrobras, as well as dozens of politicians from multiple political parties. Brazilian authorities have indicted more than 100 individuals, brought criminal charges against 13 companies, and arrested several politicians—including top officials in Rousseff's PT.[31] Rousseff served as the chairwoman of Petrobras from 2003-2010, but prosecutors have yet to find evidence that she was aware of the corruption scheme. Anti-corruption legislation enacted during Rousseff's first term has been used to facilitate the investigation, and Rousseff recently reappointed the top prosecutor involved in the case. Nevertheless, many Brazilians hold her accountable for the scandal.[32]

As more information about the corruption scandal has come to light and economic conditions have continued to deteriorate, Rousseff's political support has declined significantly. Between February and December 2015, her public approval rating fell from 23% to 11% and her disapproval rating climbed from 44% to 65%.[33] Rousseff's lack of popular support has further reduced her leverage to negotiate with the Brazilian Congress. While her nine-party electoral coalition won 304 (59%) of the 513 seats in the Chamber of Deputies and 53 (65%) of the 81 seats in the Federal Senate in the 2014 elections, Rousseff has struggled to advance her policy

[27] "Brazil Economy: Quick View – Fiscal Deficit Exceeds 10% of GDP in 2015," Economist Intelligence Unit, February 1, 2016.

[28] "Fitch Downgrads Brazil to 'Junk,'" *Latin News Daily,* December 17, 2015.

[29] IMF, *Brazil: 2014 Article IV Consultation—Staff Report,* IMF Country Report No. 15/121, May 2015.

[30] Monica De Bolle and Ernest Talvi, "IMF Therapy for Brazil," *Project Syndicate,* December 11, 2015.

[31] David Segal, "Petrobras Oil Scandal Leaves Brazilians Lamenting a Lost Dream," *New York Times,* August 7, 2015.

[32] Joe Leahy, "Brazil Corruption Clampdown May Yet Prove to Be Rousseff's Legacy," *Financial Times,* August 6, 2015; "Brazil's Rousseff Reappoints Top Prosecutor in Petrobras Probe," Reuters, August 8, 2015.

[33] Datafolha, "Avaliação de Dilma Tem Leve Melhora," December 21, 2015.

agenda. Brazilian presidents have traditionally constructed governing majorities by distributing control of government resources to allied political parties through legislative earmarks and positions in ministries and state enterprises. Rousseff has fewer resources to distribute, however, as a result of her administration's austerity policies. She has lost several important congressional votes, and some nominally allied legislators have begun to distance themselves from the President. Rousseff has even struggled to maintain the support of some PT legislators, who oppose her shift in economic policy.

In December 2015, Brazilian Chamber of Deputies President Eduardo Cunha, a member of the nominally allied, but non-ideological Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB), initiated impeachment proceedings against President Rousseff. Although opposition legislators initially began discussing impeachment as a result of the Petrobras corruption scandal, Cunha decided to proceed with charges related to the government's accounting practices. Rousseff is charged with "fiscal pedaling" for allegedly violating the country's fiscal responsibility law by postponing required payments to state banks to compensate for budget shortfalls and thereby presenting a stronger (and artificial) fiscal position. Cunha's decision appears to have been driven largely by political factors. After he was indicted on corruption and money laundering charges, Cunha sought to use the threat of impeachment as leverage to ensure PT legislators would help derail efforts to expel him from Congress. When the PT legislators voted to move forward with an ethics investigation, Cunha retaliated with the impeachment proceedings.[34]

Rousseff maintains that there is no legal justification for her impeachment, and has repeatedly asserted that any attempt to remove her would amount to a "coup."[35] Rousseff's opponents need to secure two-thirds majorities in both houses of the Brazilian Congress in order to impeach her and remove her from office. Most analysts think Rousseff currently has enough congressional support to hold onto the presidency. That could change, however, if prosecutors find evidence directly linking her to the Petrobras scandal or if the continued deterioration in economic conditions leads to a new round of large-scale anti-government protests. In December 2015, 60% of Brazilians surveyed said they were in favor of removing the president from office.[36] Efforts to address Brazil's economic challenges are likely to remain stalled until the political crisis is resolved.

U.S.-Brazil Relations

The United States and Brazil have traditionally enjoyed robust political and economic relations. The countries have at least 20 active bilateral dialogues, which serve as vehicles for policy coordination on issues of mutual concern, including trade, energy, security, racial equality, and the environment.[37] The United States and Brazil have also begun to engage more frequently on international issues as Brazil has sought to play a larger role in global affairs. According to the

[34] Vincent Bevins, "Brazil President Dilma Rousseff Faces Impeachment Proceedings," *Los Angeles Times*, December 2, 2015; "Cunha Initiates Impeachment Proceedings Against Rousseff," *Latin News Daily*, December 3, 2015; and Joe Leahy, "Move to Impeach Rousseff Heightens Political Risks for Brazil," *Financial Times*, December 3, 2015.

[35] "Brazilian President Blasts Impeachment Supporters as 'Amoral Moralists,'" *BBC Monitoring Americas*, October 16, 2015; Flávia Foreque and Marina Dias, "Tentativas de Impeachment são 'Golpistas,' Afirma Dilma," *Folha de São Paulo*, January 15, 2016.

[36] Datafolha, "Avaliação de Dilma Tem Leve Melhora," December 21, 2015.

[37] U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S. Relations with Brazil," fact sheet, July 29, 2015.

Obama Administration, Brazil is a "major global player" and an "indispensable partner" on issues ranging from international development to climate change.[38]

Nevertheless, bilateral ties have been strained from time to time as the countries' occasionally divergent national interests and independent foreign policies have led to disagreements. In recent years, for example, U.S. officials have been disappointed by Brazil's opposition to international efforts to diplomatically isolate Russia after it annexed Crimea and its unwillingness to openly criticize the Venezuelan government's efforts to suppress political dissent. Although Brazil does not support the actions of the Russian and Venezuelan governments, its aversion to sanctions and preference for dialogue have led it to approach the issues much differently than the United States.[39] Similarly, Brazilian officials have been disappointed by the U.S. government's unwillingness to support Brazil's efforts to become a permanent member of a reformed U.N. Security Council and the reluctance of the U.S. Congress to approve reforms to the IMF that will provide greater voting power to Brazil and other emerging economies.[40] Congress ultimately authorized the IMF reforms, which had been pending since December 2010, in the Consolidated Appropriations Act, 2016 (P.L. 114-113).

Disclosures about NSA activities in Brazil have also impeded bilateral cooperation in recent years. The reports, which indicated that the NSA had spied on President Rousseff and Brazil's state-owned oil company, Petrobras, in addition to engaging in broader electronic surveillance, led Brazil to postpone indefinitely a state visit to Washington that Rousseff was scheduled to make in October 2013. They also appear to have contributed to the Brazilian government's decisions to terminate a $2 billion contract with Microsoft, award a $400 million contract to build a geostationary satellite to France's Thales over U.S.-based Space Systems/Loral, and award a $4.5 billion fighter jet procurement deal to Sweden's Saab AB over Boeing.[41] At the September 2013 U.N. General Assembly, Rousseff denounced alleged NSA activities as a breach of international law and a threat to democratic governance, stating, "In the absence of the right to privacy, there can be no true freedom of expression and opinion, and therefore no effective democracy." She also asserted that "friendly governments and societies that seek to build a true strategic partnership ... cannot allow recurring illegal actions to take place as if they were normal. They are unacceptable."[42]

The U.S. and Brazilian governments have gradually moved past the surveillance dispute over the past year and a half. In October 2014, they signed a memorandum of understanding designed to resolve a long-running trade dispute over U.S. cotton support programs (see "Cotton Dispute"). Rousseff appointed her former ambassador to the United States as foreign minister following her reelection and asserted that "it is of great importance that we improve our relationship with the

[38] White House, Office of the Press Secretary, "Remarks by President Obama and President Rousseff of Brazil in Joint Press Conference," June 30, 2015.

[39] Oliver Stuenkel, *Why Brazil Has Not Criticized Russia over Crimea*, Norwegian Peacebuilding Resource Centre, Policy Brief, May 2014; "Brazil Defends Quiet Diplomacy Towards Venezuela," *Latin News Daily*, April 4, 2014.

[40] Ian Talley, "U.S. Inaction Sows Dissent in Monetary Fund—Representatives of Emerging Economies at the IMF Say They Have Waited Too Long for the Congress to Act," *Wall Street Journal*, April 15, 2014. For more information on the reforms, see CRS In Focus IF10134, *IMF Quota and Governance Reforms*, by Martin A. Weiss and Rebecca M. Nelson.

[41] Brazilian Congress, Federal Senate Committee on Foreign Relations and National Defense, *Directions for Brazil-United States Relations*, testimony of Paulo Sotero, Director of the Brazil Institute of the Woodrow Wilson International Center for Scholars, April 3, 2014; Anthony Boadle and Brian Winter, "Exclusive – Russia, U.S. Competing for Space Partnership with Brazil," Reuters, June 15, 2015.

[42] President Dilma Rousseff, *Statement by H.E. Dilma Rousseff, President of the Federative Republic of Brazil, at the Opening of the General Debate of the 68th Session of the United Nations General Assembly*, September 24, 2013.

United States" during her January 2015 inaugural address, which was attended by Vice President Biden.[43] She also rescheduled her visit to the United States that had previously been postponed, meeting with President Obama at the White House in June 2015. In the lead up to Rousseff's visit, the Brazilian Congress approved two pending defense cooperation agreements (see "Defense") and a tax information exchange agreement that meets the requirements of the Foreign Account Tax Compliance Act (FATCA, P.L. 111-147). Brazil and the United States are currently working together to address an outbreak of Zika virus in Brazil and other Western Hemisphere nations (see "Zika Virus Response").

U.S. Foreign Assistance and Trilateral Development Initiatives

As a middle-income country, Brazil does not receive large amounts of U.S. assistance. The United States provided Brazil with $18 million in FY2012, $15.2 million in FY2013, $13.9 million in FY2014, and $11.6 million in FY2015 (see **Table 1**). The Obama Administration requested $1.4 million in assistance for Brazil in FY2016. $500,000 would be used to support Brazil's national HIV/AIDS strategy and the goals of the President's Emergency Plan for AIDS Relief (PEPFAR).[44] Another $625,000 would be used to provide professional training to members of Brazil's military. The remaining $240,000 would be used to enhance Brazil's strategic trade control compliance and enforcement of maritime and port security. The actual level of assistance in FY2016 will be much higher as Congress included $10.5 million to support environmental programs in the Brazilian Amazon in the Consolidated Appropriations Act, 2016 (P.L. 114-113); the Administration did not request any funding for such programs. The Administration's FY2017 budget request includes at least $925,000 for Brazil.[45]

Table 1. U.S. Assistance to Brazil: FY2012-FY2017

In thousands of U.S. dollars

Account	FY2012	FY2013	FY2014	FY2015	FY2016 (req.)	FY2017 (req.)
Development Assistance	12,800	11,462	12,500	10,500	0	0
Global Health Programs (State)	1,300	881	500	300	500	300
International Narcotics Control and Law Enforcement	3,000	2,000	0	0	0	0
Nonproliferation, Anti-Terrorism, Demining, and Related programs	300	270	240	240	240	n/a
International Military Education and Training	638	572	618	546	625	625
Total	**18,038**	**15,185**	**13,858**	**11,586**	**1,365**	**925**

Source: U.S. Department of State.

In addition to supporting aid programs in Brazil, the U.S. Agency for International Development (USAID) has begun working with Brazil's development agency, the Brazilian Cooperation

[43] President Dilma Rousseff, *Discurso da República, Dilma Rousseff, durante Compromisso Constitucional Perante o Congresso Nacional*, January 1, 2015.

[44] For more information on PEPFAR, see CRS In Focus IF10184, *The President's Emergency Plan for AIDS Relief (PEPFAR): Summary of Recent Developments*, by Tiaji Salaam-Blyther.

[45] U.S. Department of State, *Congressional Budget Justification, Department of State, Foreign Operations, and Related Programs, Fiscal Year 2017*, February 9, 2016, http://www.state.gov/documents/organization/252179.pdf.

Agency (*Agência Brasileria de Cooperação*, ABC), in third countries. Under these so-called trilateral development initiatives, the United States and Brazil share expertise and funding in order to accomplish common goals. In Haiti, Honduras, and Mozambique, for example, USAID and the ABC have collaborated on agricultural productivity and food security programs designed to reduce poverty, hunger, and malnutrition. The Administration's FY2016 foreign aid request included some funding to collaborate with Brazil on renewable energy and citizen security programs in Central America.[46]

Zika Virus Response[47]

On November 11, 2015, Brazil's Ministry of Health declared a "public health emergency of national importance" in response to a sharp increase in the number of infants born with microcephaly, a birth defect that may accompany significant, permanent brain damage.[48] While an average of 163 cases of microcephaly were reported annually in Brazil between 2001 and 2014, nearly 4,800 cases were reported to Brazil's Ministry of Health between the start of 2015 and January 30, 2016. The increase in microcephaly is suspected, but not yet confirmed, to be linked to Zika virus, which is primarily spread by Aedes mosquitoes and first appeared in Brazil in late 2014. Although only a small proportion of people infected with Zika develop symptoms that are typically mild, health officials are concerned that pregnant women who are infected with Zika may pass the virus on to their unborn children who are at heightened risk of developing microcephaly. Brazilian health officials have investigated 1,113 suspected cases of microcephaly thus far; 709 cases were discarded, 404 cases were compatible with a congenital infection, and 17 cases were confirmed to have been infected by Zika.[49]

The Brazilian government has launched a "National Plan to Combat the Aedes and Microcephaly" that includes research, prevention and mosquito control efforts, and health assistance for pregnant women and children. It has dispatched 220,000 troops and 300,000 health agents to communities around the country to educate the population and eliminate mosquito breeding grounds. Observers have placed particular focus on mosquito control efforts in Rio de Janeiro, which is scheduled to host the 2016 Summer Olympic Games in August. Brazil has several world-class research institutions with vast experience in tropical diseases, and the country's national public health institutions are working with local and international partners to develop more efficient diagnostic kits, antiviral drugs, and a Zika vaccine.[50]

Several U.S. agencies are collaborating with the Brazilian government and international organizations to address the Zika outbreak. The U.S. Centers for Diseases Control and Prevention (CDC), for example, has been working with Brazil's Ministry of Health since early November 2015 to understand the sudden increase in microcephaly and the impacts of Zika infection during

[46] U.S. Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2016*, February 27, 2015, http://www.state.gov/documents/organization/238222.pdf.

[47] For more information on the Zika virus and the international response, see CRS Report R44368, *Zika Virus: Basics About the Disease*, by Sarah A. Lister and CRS Insight IN10433, *Zika Virus: Global Health Considerations*, by Tiaji Salaam-Blyther.

[48] Ministério da Saúde, "Ministério da Saúde Investiga Aumento de Casos de Microcefalia em Pernambuco," press release, November 11, 2015.

[49] Ministério da Saúde, "Saúde Investiga 3.670 Casos Suspeitos de Microcefalia no País," February 2, 2016; World Health Organization (WHO), *Zika Situation Report*, February 5, 2016.

[50] Luiz Alberto Figueiredo Machado, "Brazil Is Doing Its Part in the Global Fight Against Zika," *Americas Quarterly*, February 4, 2016.

pregnancy. U.S. and Brazilian experts are also collaborating on efforts to develop a vaccine.[51] In February 2016, the Obama Administration announced that it was requesting $1.8 billion in emergency funding to prepare for and respond to the Zika virus. More than $375 million of the funds would support USAID and State Department initiatives, primarily in South America, Central America, and the Caribbean. Activities would include education campaigns, mosquito control activities, training for health care workers, and health support for pregnant women. It is unclear how much of the funding would specifically support efforts in Brazil.[52]

Commercial Relations

Trade policy has often been a contentious issue in U.S.-Brazilian relations. Throughout the past two decades, Brazil's trade policy has prioritized integration with its South American neighbors through the Common Market of the South (Mercosur)[53] and multilateral negotiations at the World Trade Organization (WTO).[54] Brazil is the industrial hub of Mercosur, which was established in 1991 and also includes Argentina, Paraguay, Uruguay, and Venezuela. While the bloc was created with the intention of incrementally advancing toward full economic integration, only a limited customs union has been achieved thus far. The group has also been plagued by internal disputes and frequent rule changes. Instead of serving as a platform for insertion into the global economy as originally envisioned, Mercosur has evolved into a more protectionist arrangement, shielding its members from external competition. Beginning in the 1990s, the United States sought to incorporate Mercosur and other sub-regional trade blocs into a hemisphere-wide Free Trade Area of the Americas (FTAA).[55] The initiative was effectively killed in 2005, however, when the United States was unable to persuade Brazil and the other members of Mercosur to continue the negotiations.

At the WTO, Brazil has played a key role in the Doha Development Agenda round of multilateral trade negotiations that began in 2001.[56] It has led the G-20 group of developing nations in insisting that developed countries reduce agricultural tariffs and subsidies. Brazil has also resisted calls by the United States and other developed countries for increased access to developing nations' industrial and services sectors. In 2013, Brazil's widely respected diplomat and trade representative Roberto Azevêdo was appointed Director General of the WTO. He has sought to revive the Doha round, successfully negotiating a small-scale agreement on trade facilitation measures in December 2013. Negotiations on more sensitive issues like agriculture remain stalled, however, and the U.S. Trade Representative has called for the WTO to abandon the Doha round.[57]

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[51] "U.S. CDC Says in Full Outbreak Mode in Response to Zika," Reuters, January 29, 2016; "U.S. Experts to Visit Brazil to Begin Zika Vaccine Work," Reuters, February 3, 2016.

[52] White House, Office of the Press Secretary, "Fact Sheet: Preparing for and Responding to the Zika Virus at Home and Abroad," February 8, 2016.

[53] For background information on Mercosur, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

[54] João Augusto de Castro Neves, *Brazil's Slow and Uncertain Shift from Protectionism to Free Trade*, Inter-American Dialogue, working paper, January 2014, http://www.thedialogue.org/uploads/CastroNeves_Trade.pdf.

[55] For background information on the FTAA, see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J. F. Hornbeck.

[56] For more information on the Doha round, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

[57] U.S. Trade Representative Michael Froman, "We Are at the End of the Line on the Doha Round of Trade Talks," *Financial Times*, December 13, 2015.

Some Brazilian analysts have argued that the international trading system is undergoing a significant transformation and that Brazil should reconsider its trade policy.[58] They maintain that large-scale agreements like the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP) could establish new and more comprehensive rules for trade and investment.[59] By setting new global standards, the agreements could effectively bypass multilateral negotiations at the WTO and threaten Brazil's ability to shape the international trading system. The agreements could also place Brazilian companies at a competitive disadvantage and threaten the global market share of Brazilian exports. In order to remain relevant and take advantage of changing opportunities, these analysts argue that Brazil should conclude trade negotiations with the European Union (EU) and consider pursuing a trade agreement with the United States.

While some members of the Rousseff Administration agree that Brazil should accelerate its trade agreement negotiations, others maintain that opening up Brazil to more foreign trade would decimate Brazilian industry.[60] In the past year, the Brazilian government has placed renewed emphasis on concluding an agreement between Mercosur and the EU and has begun to move forward with trade negotiations with other nations.[61] Further policy shifts will likely depend on how the TPP agreement and T-TIP negotiations advance and economic conditions in Brazil.

Bilateral Trade and Investment

Despite differences in trade policy and the lack of a free trade agreement, U.S.-Brazil trade has grown considerably over the past decade (see **Figure 2**). Between 2005 and 2014, U.S.-Brazil merchandise trade increased by more than 83%. It declined by nearly 20% in 2015, however, largely as a result of declining commodity prices and the deteriorating economic situation in Brazil. Compared to 2014, U.S. goods exports to Brazil declined 25% from $42.4 billion to $31.7 billion, and U.S. goods imports from Brazil declined 10% from $30.5 billion to $27.4 billion. Despite the significant decline in exports, the United States maintained a slight merchandise trade surplus with Brazil valued at $4.3 billion.[62] In 2015, top U.S. goods exports to Brazil included refined civilian aircraft and parts, heavy and electric machinery, oil products, and medical equipment. Top U.S. goods imports from Brazil included crude oil, civilian aircraft, iron and steel, machinery, and coffee. Brazil was the United States' twelfth-largest trading partner, and the United States was Brazil's second-largest trading partner, behind China.[63]

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[58] See, for example, Renata Agostini, "Acesso do Brasil ao Fluxo Global de Comércio Fica entre Menores do G20," *Folha de São Paulo*, June 26, 2015; "Chances Perdidas," *Correio Braziliense*, January 2, 2014; Sonia Filgueiras, "Olhar do Planalto – Sob o Risco do Isolamento," *Brasil Econômico*, December 18, 2013; Vera Thorstensen and Lucas Ferraz, *The Impacts of TTIP on Brazil*, Fundação Getulio Vargas, Study Sponsored by the Confederação Nacional da Industria (CNI), November 2013.

[59] For more information on these agreements, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson; and CRS Report R43387, *Transatlantic Trade and Investment Partnership (T-TIP) Negotiations*, by Shayerah Ilias Akhtar, Vivian C. Jones, and Renée Johnson.

[60] "Brasil Debe Acelerar Pactos Internacionales de Comercio: Jefe de Gabinete," Reuters, November 19, 2014; "Brazil Trade Minister Says Opening Up Trade Would Be 'Disaster' – Paper," Reuters, September 27, 2014.

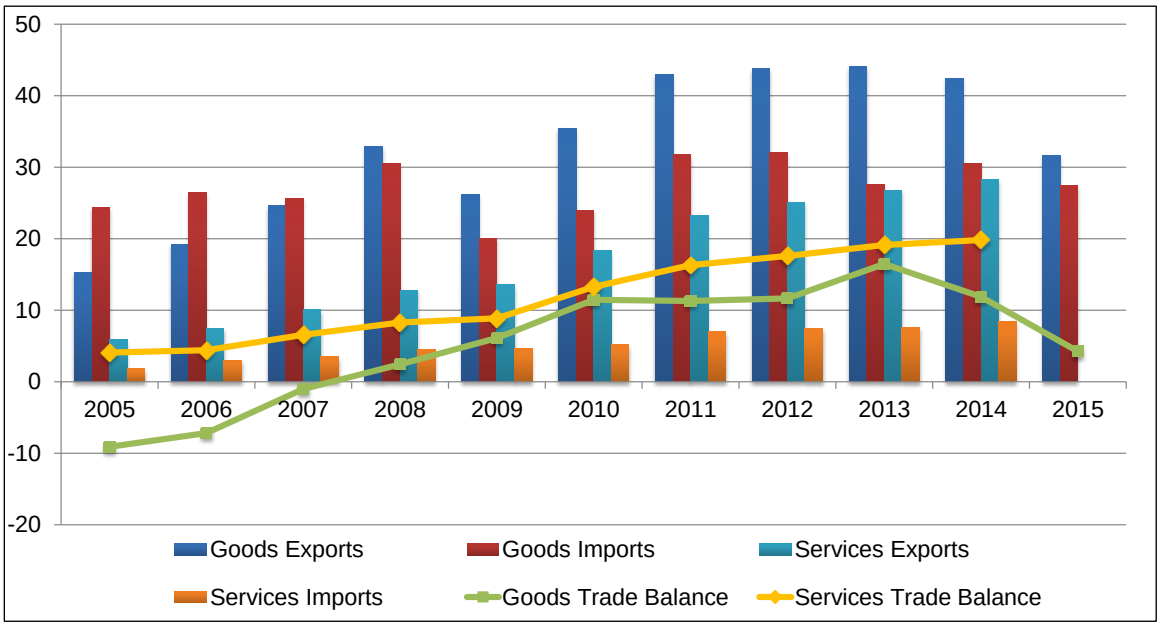
[61] Patrícia Campos Mello and Renata Agostini, "Governo Negocia Compras Públicas e Apressa Seis Acordos Comerciais," *Folha de São Paulo*, August 7, 2015.

[62] U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive Tariff and Trade DataWeb*, February 2016.

[63] U.S. Department of Commerce and República Federativa do Brasil, Secretaria de Comércio Exterior (SECEX) data, as made available by *Global Trade Atlas*, February 2016.

Figure 2. U.S. Trade with Brazil: 2004-2015

In billions of U.S. dollars



Source: CRS presentation of U.S. Department of Commerce data.

Notes: 2015 services trade data are not yet available.

U.S.-Brazil services trade has grown even more quickly than merchandise trade, increasing by 446% between 2004 and 2014 (the most recent year for which data are available), from $6.7 billion to $36.7 billion. The United States continued to run a substantial services trade surplus in 2014, valued at $19.8 billion, as U.S. services exports to Brazil totaled $28.2 billion and U.S. services imports from Brazil totaled $8.4 billion. Travel, transport, telecommunications, and intellectual property charges were the top categories of U.S. services exports to Brazil while business services was the top category of U.S. imports from Brazil.[64] In 2014, nearly 2.3 million Brazilians visited the United States, spending an estimated $13 billion on travel and tourism.[65]

Brazil benefits from the Generalized System of Preferences (GSP) program, which provides nonreciprocal, duty-free tariff treatment to certain products imported from designated developing countries. Legal authorization for the GSP program expired on July 31, 2013, but the program was reauthorized and extended through 2017 after Congress passed and the President signed into law the Trade Preferences Extension Act of 2015 (P.L. 114-27) in June 2015.[66] In 2012, the last full year that the GSP program was in effect, Brazil was the third-largest beneficiary. The country's duty-free imports to the United States under the GSP program were valued at $2.3 billion, equivalent to about 7% of all U.S. imports from Brazil in 2012.[67] Some observers have

[64] U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Trade in Services, by Country or Affiliation and by Type of Service," November 2015.

[65] U.S. Department of Commerce, International Trade Administration, National Travel and Tourism Office, *2014 Market Profile: Brazil*, June 2015, http://travel.trade.gov/outreachpages/download_data_table/2014_Brazil_Market_Profile.pdf.

[66] For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Overview and Issues for Congress*, by Vivian C. Jones.

[67] U.S. Department of Commerce data, as made available by the U.S. International Trade Commission, *Interactive*

questioned the inclusion of Brazil and other upper-middle-income countries in the GSP program; the European Union removed such countries from its GSP program as of 2014.[68]

Foreign direct investment (FDI) between the United States and Brazil currently flows mostly in one direction, toward Brazil. As of 2014 (the most recent year for which data are available), the accumulated stock of U.S. FDI in Brazil was $70.5 billion, with significant investments in manufacturing and finance, among other sectors. The stock of Brazilian FDI in the United States totaled $616 million in 2014.[69]

Cotton Dispute[70]

In October 2014, Brazil and the United States appeared to resolve a more than decade-long dispute over U.S. government support for cotton farmers. In 2002, Brazil went to the WTO to challenge several provisions of the U.S. cotton program. A WTO dispute settlement panel ruled in Brazil's favor in 2004, finding that certain U.S. agricultural support payments and export guarantees were inconsistent with its WTO commitments. Although Congress modified agricultural support programs in 2005, a WTO compliance panel ruled in 2007 that the U.S. actions were insufficient. Following a ruling from a WTO arbitration panel, Brazil announced in March 2010 that it intended to impose retaliatory measures against the United States worth $829 million. This included $591 million in higher tariffs on a range of U.S. products and $239 million through suspension of certain intellectual property rights obligations.

The United States reached a temporary agreement with Brazil in June 2010 to avoid the WTO-sanctioned retaliatory measures. Under the agreement, the United States pledged to make some short-term changes to its export credit guarantees and provide the Brazil Cotton Institute with $147 million annually for a fund to assist Brazilian cotton farmers with technical assistance, marketing, and market research. In exchange, Brazil agreed to temporarily suspend its retaliation with the intention of reaching a permanent agreement with the United States after Congress had an opportunity to adjust the subsidy program in a reauthorization of the farm bill.[71]

The U.S. government stopped complying with the temporary agreement in 2013, making only a portion of the required monthly payment in September 2013 and then stopping payments altogether as of October 2013. Secretary of Agriculture Tom Vilsack reportedly asserted that the partial payment was required by budget sequestration and that he had no authority to continue making payments once the farm bill expired at the end of September 2013.[72] The suspension of payments led the Brazilian government to once again explore retaliatory measures.[73]

In February 2014, President Obama signed into law a new farm bill (P.L. 113-79). According to the conference report accompanying the act (H.Rept. 113-333), the legislation included several

Tariff and Trade DataWeb, March 2014.

[68] European Commission, "New GSP as of 2014," December 18, 2013.

[69] U.S. Department of Commerce, Bureau of Economic Analysis, "Balance of Payments and Direct Investment Position Data," November 2015.

[70] For more information on the cotton dispute, see, CRS Report R43336, *The WTO Brazil-U.S. Cotton Case*, by Randy Schnepf.

[71] 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.

[72] William Mauldin, "U.S. to Stop Brazil Farm Payments; Sequester Will Stop Assistance Related to Cotton Dispute," *Wall Street Journal*, August 7, 2013.

[73] República Federativa do Brasil, Ministério do Desenvolvimento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 105, de 18 de Dezembro de 2013.*

substantive changes to U.S. cotton support programs and the export credit guarantee program in order to resolve the dispute with Brazil. Nevertheless, Brazil's Foreign Trade Board (*Câmara de Comércio Exterior*, CAMEX) asserted that the farm bill contained elements that would continue to distort the international cotton market, and authorized the Brazilian government to request a WTO panel to assess whether the farm bill brought the United States into compliance with previous rulings.[74]

Rather than requesting a new WTO compliance panel, Brazil reached a settlement with the United States. According to the memorandum of understanding signed in October 2014, the United States agreed to make a final one-time payment of $300 million to the Brazil Cotton Institute and make some additional changes to its export credit guarantee program. In exchange, Brazil agreed not to challenge U.S. cotton support programs at the WTO prior to September 30, 2018.[75]

Energy Ties

Energy is another important area of U.S.-Brazilian cooperation. Brazil is the world's second-largest producer of ethanol (after the United States). It has also discovered large offshore oil deposits that have the potential to turn the country into a major oil and gas producer. President Obama and President Rousseff launched a Strategic Energy Dialogue in 2011 to facilitate greater cooperation in the development of safe, secure, and affordable energy. During their June 2015 meeting, they agreed to renew the dialogue and endorsed cooperation on biofuels; oil and natural gas; civil nuclear energy; renewable energy; and energy-related science. They also announced a joint goal of increasing the share of renewables—beyond hydropower—in the Brazilian and U.S. electricity generation mixes to 20% by 2030.[76]

Biofuels

In response to sharp increases in global oil prices in the 1970s, the Brazilian government began a national program to promote the production and consumption of sugarcane ethanol. Today, most cars in Brazil are capable of running on pure ethanol, which is available at nearly every fueling station, or gasoline, which is required to include an 18-27.5% ethanol blend.[77] The Brazilian ethanol sector has struggled in recent years, however, due to poor harvests and lower demand resulting from the Brazilian government's policy of capping gasoline prices to hold down inflation. Consequently, the ethanol industry has seen lower levels of investment and production. The Brazilian government has sought to provide some relief to the ethanol industry by raising gasoline prices, increasing the ethanol blend requirement, and reducing taxes on ethanol. Nevertheless, some analysts maintain that the lack of transparency and certainty regarding how gasoline prices are determined are likely to continue to discourage investment in the industry.[78] In

[74] CAMEX, "CAMEX Autoriza Abertura de Painel na OMC sobre Legislação Agrícola Norte-Americana," February 19, 2014.

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

[76] White House, Office of the Press Secretary, "Joint Communique by President Barack Obama and President Dilma Rousseff," press release, June 30, 2015; and White House, Office of the Press Secretary; "Fact Sheet: The United States and Brazil – A Mature and Multi-Faceted Partnership," press release, June 30, 2015.

[77] "Brazil's President Signs Higher Ethanol Blend into Law," Reuters, September 25, 2014.

[78] Claire Casey, "Is Brazil the Energy Power of the Future (and Always Will Be)?" *Americas Quarterly* (Summer 2013).

2014 (the most recent year for which data are available), Brazil produced 497,000 barrels per day of ethanol, which was an increase of 3.6% compared to 2013.[79]

In 2007, the United States and Brazil, the world's two largest ethanol-producing and consuming countries, signed a memorandum of understanding to promote greater cooperation on ethanol and other biofuels. The agreement involves (1) technology sharing between the United States and Brazil; (2) feasibility studies and technical assistance to build domestic biofuels industries in third countries; and (3) multilateral efforts to advance the global development of biofuels.[80]

Since then, the United States and Brazil have moved forward on all three facets of the agreement. Bilaterally, the U.S. and Brazilian governments have attempted to improve methods for modeling the sustainability of biofuels, including their effects on greenhouse gas emissions and land use, and have exchanged information on how to maximize fuel economy in flex-fuel vehicles. They are also coordinating efforts to develop sustainable aviation biofuels. At the same time, the U.S. and Brazilian governments are working together to provide joint technical assistance designed to strengthen policy frameworks, implement blending laws, and develop domestic production capabilities in countries such as the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Senegal. Multilaterally, the United States and Brazil have worked with other members of the Global Bioenergy Partnership (GBEP) to promote the sustainable production and use of modern bioenergy.[81]

In addition to these efforts, the United States and Brazil have taken steps to liberalize trade in ethanol. The Brazilian government has issued multiple resolutions to provide duty-free treatment for imported ethanol, most recently extending such treatment until December 31, 2021.[82] Similarly, the U.S. Congress allowed a 54-cent-per-gallon duty on imported ethanol to expire at the end of 2011. Prior to its expiration, the duty served as a significant barrier to direct imports of Brazilian ethanol in most years.[83] Nevertheless, total bilateral ethanol trade has declined since then, falling from 33,000 barrels per day in 2011 to 10,000 barrels per day in 2014 (the most recent year for which data are available). In 2014, the United States exported 7,000 barrels per day of fuel ethanol to Brazil and imported 3,000 barrels per day from Brazil.[84]

Oil

Since 2007, Brazil has discovered substantial new offshore oil fields that have the potential to turn the country into one of the top five oil and gas producers in the world.[85] The new discoveries are so-called "pre-salt" reserves, located beneath layers of rock and salt more than 18,000 feet

[79] Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), *Oil, Natural Gas and Biofuels Statistical Yearbook 2015*, July 2015.

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

[81] White House, Office of the Press Secretary, "Fact Sheet: The U.S.-Brazil Strategic Energy Dialogue," April 9, 2012.

[82] Ministério do Desenvolvimiento, Indústria e Comércio Exterior, Câmara de Comércio Exterior (CAMEX), *Resolução N° 92, de 24 de Septembro de 2015*.

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

[84] U.S. Energy Information Administration (EIA), "Petroleum & Other Liquids: Data," May 28, 2015.

[85] Mark S. Langevin, *Brazil's Hydrocarbon Bonanza: Can the State Manage Pre-Salt Production for National Development and Geopolitical Power?* Brazil-Works, discussion paper, May 2012.

below the ocean surface.[86] In 2014 (the most recent year for which data are available), Brazil's proven oil reserves stood at 16.2 billion barrels (equivalent to 1% of global reserves), and Brazilian oil production reached 2.3 million barrels per day (equivalent to 2.9% of global production).[87]

In 2010, the Brazilian Congress approved a new regulatory framework for developing the approximately 70% of pre-salt reserves that had not already been auctioned off.[88] The new framework increased the role of the Brazilian government and was designed to ensure that the country's resources would be used to fuel long-term economic and social development. Among other provisions, the framework established state-owned Petrobras as the sole operator for all new offshore projects; replaced the existing concessionary model with a production sharing regime; guaranteed Petrobras a minimum 30% stake in all joint ventures; created a public company—Petrosal—to manage the development of the offshore reserves; increased local content requirements; and created a new social fund overseen by the Brazilian Congress to direct offshore revenues toward four key areas: education, infrastructure, science and technology, and poverty reduction.[89] The Brazilian Congress continued to debate legislation regarding the distribution of oil royalties until 2013.

The delay in approving the new regulatory framework and royalty distribution law prevented Brazil's National Agency of Petroleum, Natural Gas, and Biofuels (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*, ANP) from auctioning new concessions for nearly five years. As a result, oil production did not increase as quickly as originally predicted and actually declined from 2011-2013. The ANP held its first auction of pre-salt concessions under the new regulatory framework in 2013. While it reportedly had expected more than 40 companies to participate, only 11 companies signed up for the auction, and a consortium of five companies (Petrobras, Royal Dutch Shell, Total, China National Petroleum Corporation, and China National Offshore Oil Corporation) was the sole bidder.[90]

Many energy analysts maintain that Brazil needs to modify its regulatory framework in order to attract the investment necessary to develop its reserves and accelerate production. Brazil's energy minister and some Petrobras officials agree with that assessment and have called for changes, such as loosening local content requirements and reversing the requirement that Petrobras hold a 30% minimum stake in all projects. Ongoing corruption investigations and the steep decline in the price of oil have taken a toll on Petrobras, which announced in January 2016 that it is cutting its planned investments for 2015-2019 by nearly 25%.[91] This has led to a renewed focus on regulatory changes that would allow foreign companies to play a larger role in developing Brazil's offshore resources. While the Brazilian Congress has begun considering potential changes, President Rousseff has voiced opposition to such reforms.[92]

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[86] EIA, *Country Analysis Briefs: Brazil*, December 29, 2014, http://www.eia.gov/beta/international/analysis_includes/countries_long/Brazil/brazil.pdf.

[87] BP, *BP Statistical Review of World Energy*, June 2015, p. 6, http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf.

[88] Langevin, 2012, op. cit.

[89] "Brazil Congress Passes Oil Industry Overhaul," Reuters, December 1, 2010; "The Impact of Pre-Salt: A Long-Term Perspective," *Oxford Analytica*, May 2010.

[90] "Weak Libra Interest Rounds Out a Rough Week for Brazil's Rousseff," *Latin News Daily*, September 20, 2013; "Brazil's Oil Revolution Gets Off to a Slippery Start," *Latin News Daily*, October 22, 2013.

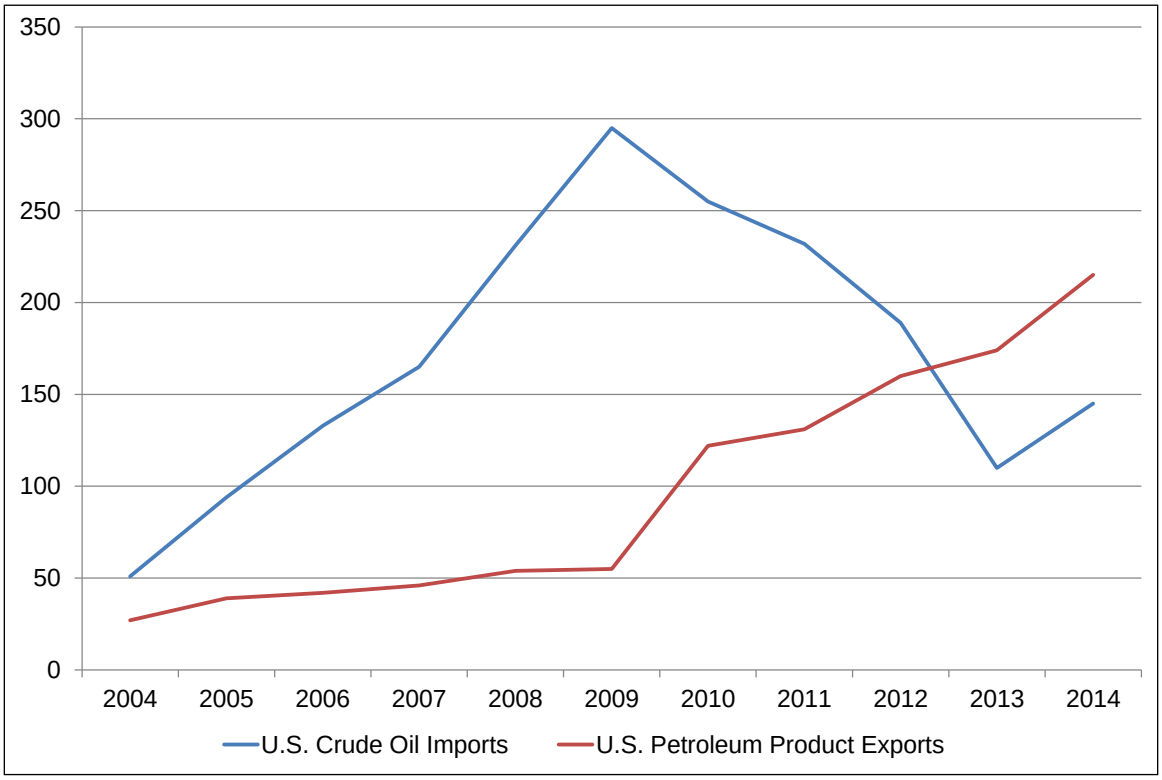
[91] "Brazil: Petrobras Slashes Investment Programme," *Latin News Daily*, January 13, 2016.

[92] Paul Kiernan, "Brazilian President Stands by Oil Rules; Energy Minister, Petrobras Favor Loosening Regulations,

U.S.-Brazilian oil trade has expanded significantly over the past decade (see **Figure 3**). U.S. crude oil imports from Brazil grew rapidly from 51,000 barrels per day in 2004 to 295,000 barrels per day in 2009. They have declined since then, however, as U.S. consumption has fallen and U.S. domestic production has increased. In 2014, the United States imported 145,000 barrels per day of crude oil from Brazil, which was equivalent to about 2% of total U.S. crude imports. U.S. exports of refined products to Brazil have also grown quickly, increasing nearly 700% from 27,000 barrels per day in 2004 to 215,000 barrels per day in 2014. As a result, U.S. refined product exports to Brazil have exceeded U.S. crude imports from Brazil for the past two years.[93] Brazil has been forced to increasingly rely on imports as its consumption has grown more quickly than its production and refinery capacity. Some energy analysts expect this trend to continue until at least 2017, when two new Brazilian refineries are scheduled to begin operations.[94]

Figure 3. U.S. Oil Trade with Brazil: 2004-2014

In thousands of barrels per day



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

Security Cooperation

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

But Rousseff Pushes Back," *Wall Street Journal*, May 14, 2015.

[93] EIA, "Petroleum & Other Liquids: Data," May 28, 2015.

[94] Jeb Blount, "Analysis: Petrobras Fuel Woes Make Brazil Dependent on U.S., India," Reuters, January 22, 2014.

Counternarcotics

Brazil is not a major drug-producing country, but it is the world's second-largest consumer of cocaine hydrochloride and likely the world's largest consumer of cocaine-based products. It also serves as a transit point for illicit drugs destined for Europe.[95] Security analysts contend that organized crime in Brazil has increased in scope and scale over the past decade as the drug trade has expanded. Some of the country's large, well-organized, and heavily armed criminal groups, such as the Red Command (*Comando Vermelho*, CV) and the First Capital Command (*Primeiro Comando da Capital*, PCC), have reportedly begun to operate transnationally, eliminating intermediaries in order to control cross-border trafficking.[96]

In recognition of these challenges, Brazil has taken several steps to improve its antidrug efforts. In 2004, it implemented an air bridge denial program, which authorizes lethal force for air interdiction, and in 2006, Brazil passed an antidrug law that prohibits and penalizes the cultivation and trafficking of illicit drugs. Brazil has also sought to improve security along the 15,719-kilometer border that it shares with 10 nations, including the region's cocaine producers—Bolivia, Colombia, and Peru. Under its Strategic Border Plan, introduced in 2011, the Brazilian government has deployed inter-agency resources, including unmanned aerial vehicles (UAVs), to monitor illicit activity in high-risk locations along its borders and in the remote Amazon region. It has also signed agreements and carried out joint operations with neighboring countries. In 2014, Brazilian authorities reportedly seized 25.6 metric tons of cocaine and 159.6 metric tons of marijuana.[97]

In 2008, the U.S. and Brazilian governments signed a memorandum of understanding designed to enhance the capacity of Brazilian authorities to combat drug trafficking and reduce domestic drug demand. To these ends, the United States provided training to Brazilian law enforcement on topics such as investigative techniques and money laundering and provided support to nongovernmental organizations creating anti-drug community coalitions in 2014.[98] U.S. counternarcotics assistance to Brazil amounted to $3.5 million in FY2012, $1.9 million in FY2013, and $15,000 in FY2014.[99] The Obama Administration did not request any counternarcotics assistance for Brazil in FY2015, FY2016, or FY2017.

Counterterrorism[100]

According to the State Department's *Country Reports on Terrorism*, there are no confirmed operational cells of al Qaeda or Hezbollah in the Western Hemisphere, but ideological sympathizers provide financial and moral support to those and other terrorist groups in the Middle

[95] U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *2015 International Narcotics Control Strategy Report (INCSR), Volume I: Drug and Chemical Control*, March 18, 2015, http://www.state.gov/j/inl/rls/nrcrpt/2015/vol1/238949.htm.

[96] Robert Muggah and Guztavo Diniz, *Securing the Border: Brazil's "South America First" Approach to Transnational Organized Crime*, Igarapé Institute, Strategic Paper 5, October 2013, http://pt.igarape.org.br/wp-content/uploads/2013/10/SP_05_EN_Securing-the-border_7th_oct.pdf.

[97] *INCSR*, 2015, op. cit.

[98] Ibid.

[99] U.S. Department of State, USAID, and U.S. Department of Defense data as presented by the *Foreign Assistance Dashboard*, accessed August 2015.

[100] For more information on terrorism concerns in Latin America, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan and June S. Beittel.

East and South Asia.[101] In 2010, for example, the U.S. Treasury Department sanctioned Hezbollah's chief representative in South America, Bilal Mohsen Wehbe, for transferring funds collected in Brazil to Hezbollah in Lebanon. According to the Treasury Department, Wehbe and an associate raised more than $500,000 from Lebanese businessmen in the tri-border area of Argentina, Brazil, and Paraguay following the 2006 conflict between Israel and Hezbollah. Wehbe also reportedly had overseen Hezbollah's counterintelligence activity in the tri-border area and had worked for the office of Iranian Supreme Leader Ayatollah Ali Khamene'i.[102]

The U.S. government has worked with Brazil to address concerns about the tri-border area and strengthen the country's counterterrorism capabilities. The countries of the tri-border area and the United States created the "3+1 Group on Tri-Border Area Security" in 2002, and the group built a Joint Intelligence Center to combat trans-border criminal organizations in 2007. Within Brazil, the United States has supported efforts to implement the Container Security Initiative (CSI) at the port of Santos, and U.S. agencies have trained Brazilian airline employees on identifying fraudulent documents. U.S. authorities also have provided training to officials from each of the three Brazilian law enforcement agencies with counterterrorism responsibilities on topics such as infrastructure security, crisis incident management, and digital network security. These training programs are designed to enhance the Brazilian government's investigative capabilities and support efforts to prevent terrorist attacks at the 2016 Summer Olympic Games.[103]

The State Department's *Country Reports on Terrorism* for 2014 recognized the Brazilian government's continued support for counterterrorism-related activities, including pursuing investigative leads provided by the U.S. government regarding terrorist suspects. Brazil lacks antiterrorism legislation, however, which reportedly hinders prosecutions of potential terrorists.[104] Like many other Latin American nations, Brazil has been reluctant to adopt specific antiterrorism legislation as a result of the difficulty of defining terrorism in a way that does not include the actions of social movements and other groups whose actions of political dissent were condemned as "terrorism" by repressive military regimes in the past. Nevertheless, both houses of Brazil's Congress passed bills in 2015 that would define terrorism and make terrorism, terrorist financing, and the intent to commit terrorism autonomous offenses. The Brazilian Congress is currently reconciling the differences between the bills and is expected to enact the legislation in early 2016.[105]

Defense

U.S.-Brazil military cooperation has increased significantly in recent years. In the aftermath of a massive January 2010 earthquake in Haiti, U.S. and Brazilian military forces engaged in their largest combined operations since World War II, when the 25,000-strong Brazilian Expeditionary Force was dispatched to Italy and fought as a division within the United States Fifth Army. Later in 2010, the U.S. and Brazilian governments signed a Defense Cooperation Agreement designed to promote cooperation in areas such as research and development, technology security, and

[101] U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2014*, April 2015, http://www.state.gov/j/ct/rls/crt/2014/239409.htm.

[102] U.S. Department of the Treasury, "Treasury Targets Hizballah Financial Network," press release, December 9, 2010.

[103] U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2014*, April 2015.

[104] Ibid.

[105] Matias Spektor, "Brasil Contra o Terror," *Folha de São Paulo*, February 4, 2016.

acquisition of defense products and services, and a General Security of Military Information Agreement designed to facilitate the sharing of classified defense and military information.[106] In an effort to elevate defense ties further, President Rousseff joined with President Obama in 2012 to launch a presidential-level Defense Cooperation Dialogue. While the cooling of bilateral relations in the aftermath of the NSA revelations affected U.S.-Brazilian defense ties, military-to-military cooperation at the operational and tactical levels reportedly remained strong.[107] The Defense Cooperation Agreement and the General Security of Military Information Agreement, which had been awaiting approval from Brazil's Congress since 2010, were adopted and entered into force in June 2015 prior to President Rousseff's trip to the United States.

As previously noted, the United States provides security assistance, including military training, to Brazil. This assistance is designed to strengthen military-to-military relationships, increase the professionalization of Brazilian forces, and enhance Brazil's capacity to assume a larger role in peacekeeping operations and in combating terrorism. The U.S. Department of Defense and the U.S. Department of State provided nearly $2 million in military training assistance to about 110 Brazilians in FY2014. The Brazilian government paid for another 124 Brazilians to receive over $8 million in U.S. training through the Foreign Military Sales (FMS) program. In FY2015, the State and Defense Departments planned to provide $662,000 in military training assistance to about 50 Brazilians. They planned to train 72 more Brazilians with $1.5 million in Brazilian funding through the FMS program.[108]

Promotion of Racial Equality

While Brazilians have experienced significant improvements in economic and social conditions over the past 15 years, racial disparities persist. Afro-Brazilians, who comprise about half of the Brazilian population,[109] account for less than 25% of Brazilians that have completed post-secondary degrees and 17% of Brazilians that have completed graduate degrees.[110] In 2010, the median income of Afro-Brazilians was 64% of the median income of white Brazilians.[111] Even after controlling for education, occupation, and location, white Brazilians reportedly receive higher wages than Afro-Brazilians.[112] Moreover, Afro-Brazilians are disproportionately the victims of Brazil's high levels of crime and violence. In 2010, the homicide rate for Afro-Brazilians was 36.5 per 100,000—nearly two and a half times the rate of other Brazilians.[113]

In order to reduce racial disparities, the Brazilian government has enacted a series of antidiscrimination and affirmative action measures. Brazil became the first Latin American

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[106] U.S. Department of Defense, Office of the Secretary of Defense, "Fact Sheet: U.S.-Brazil Defense Cooperation," March 14, 2011.

[107] General John F. Kelly, Commander, United States Southern Command, *Posture Statement Before the 113th Congress House Armed Services Committee*, February 26, 2014, p. 21, http://www.southcom.mil/newsroom/Documents/2014_SOUTHCOM_Posture_Statement_HASC_FINAL_PDF.pdf.

[108] U.S. Department of Defense and U.S. Department of State, *Foreign Military Training, Fiscal Years 2014 and 2015, Volume I*, 2015, October 30, 2014, http://www.state.gov/documents/organization/243026.pdf.

[109] According to Brazil's 2010 census, 43.1% of Brazilians self-identify as *pardo* ("mixed race") and 7.6% self-identify as *preto* ("black"). IBGE, *Censo Demográfico 2010*, November 2011.

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

[111] IBGE, 2011, op. cit.

[112] Dias & Goes, 2013, op. cit., p. 21.

[113] Daniel R. C. Cerqueira and Rodrigo Leandro de Moura, *Vidas Perdidas e Racismo no Brasil*, IPEA, Nota Técnica N° 10, Brasília, November 2013, p. 6.

country to endorse racial quotas in government service in 2002, and became the first country in the world to establish a special secretariat with a ministerial rank to manage racial equity promotion policies in 2003. In 2010, Brazil enacted the Statute of Racial Equality, which offered tax incentives for businesses that undertake racial inclusion, called on the government to adopt affirmative action programs, and reaffirmed that African and Afro-Brazilian history should be taught in all elementary and middle schools, among other provisions. In 2012, Brazil adopted a law that required federal universities to reserve half of their admissions spots for students who are Afro-Brazilian, indigenous, or graduates of public high schools (which tend to serve the poorest students). The law gradually increased the admissions spots required to be reserved from 12.5% in 2013 to 50% this year (2016), with half of the reserved spots set aside for low-income students of all races with the highest grades and the other half divided in accordance with the racial makeup of each state.[114] More recently, President Rousseff enacted a law in 2014 that reserved 20% of jobs in the Brazilian executive branch and state-owned enterprises for Afro-Brazilians.[115] Although race-based affirmative action policies are controversial among some sectors of the Brazilian population,[116] they have been upheld as constitutional by the Brazilian Supreme Court.

In March 2008, Brazil and the United States signed an agreement known as the United States-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality. The initiative recognizes that Brazil and the United States are multi-ethnic, multi-racial democracies, and seeks to promote equality of opportunity for the members of all racial and ethnic communities. To that end, Brazil and the United States share best practices through activities such as training programs, workshops, technical expert exchanges, scholarships, and public-private partnerships.[117] The initiative has focused on expanding access to education for students of African descent, eliminating racial health disparities, mitigating environmental impacts in communities of African descent, addressing challenges in criminal justice systems, and guaranteeing equal access to economic opportunities.[118] Congress recommended providing resources to continue and strengthen the initiative in FY2015 according to H.Rept. 113-499, which is considered part of the explanatory statement accompanying the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235). Congress did not specifically address the initiative in the FY2016 omnibus appropriations bill.

Amazon Conservation

The Amazon Basin is estimated to span more than 6.8 million square kilometers. It produces about 20% of the world's fresh water discharge and contains the largest remaining rainforest on Earth.[119] In addition to supporting significant biological diversity, the Amazon Rainforest is a global sink for carbon emissions and an important asset in the mitigation of climate change. The

[114] Simon Romero, "Brazil Enacts Affirmative Action Law for Universities," *New York Times*, August 30, 2012; "Rousseff Decrees Affirmative Action," *Latin News Daily*, October 16, 2012.

[115] "Brazil Enacts 20 Percent Quotas for Blacks in Federal Jobs," Agence France Presse, June 9, 2014.

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

[117] U.S. Department of State, Bureau of Western Hemisphere Affairs, "U.S.-Brazil Joint Action Plan Promotes Racial and Ethnic Equality," April 11, 2012.

[118] U.S. Department of State, Office of the Spokesperson, "Steering Group Meeting of the U.S.-Brazil Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equality," media note, July 17, 2013.

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

forest biomass is estimated to hold about 100 billion tons of carbon, which is equivalent to more than 10 years of global fossil fuel emissions.[120]

About 69% of the Amazon Basin, which is shared by seven nations,[121] lies within Brazil.[122] The Brazilian Amazon was largely undeveloped until the 1960s, when the military government began subsidizing the settlement and development of the region as a matter of national security. Partially as a result of these incentives, the human population grew from 6 million in 1960 to 25 million in 2010. Forest cover in the Brazilian Amazon has declined to about 80% of its original area as a result of settlements, roads, logging, farming, and other activities in the region.[123]

Recognizing that continued destruction of the Amazon Rainforest is damaging to Brazil's global image and could threaten hydroelectricity generation and agricultural production,[124] the Brazilian government has implemented a series of policies designed to slow deforestation. In 2002, for example, it created the Amazon Protected Areas Program, which now includes some 600,000 square kilometers of forest.[125] Likewise, the Brazilian government adopted a plan to reduce the rate of Amazon deforestation by 80%—based on the 1996-2005 average—to 3,925 square kilometers per year by 2020. To meet this target, the Brazilian government has increased surveillance and financed sustainable development projects.[126] Brazil appears to be on track to achieve its goal, as annual deforestation has fallen from 27,772 square kilometers in 2004 to 5,831 square kilometers in 2014 (see **Figure 4**).[127]

Despite progress over the past decade, Brazil's deforestation rate in 2015 was 28% higher than the low of 4,571 square kilometers recorded in 2012.[128] Some analysts have attributed the increase in deforestation to government policy changes. In 2011, President Rousseff signed a law transferring responsibility for environmental oversight of nonfederal lands from Brazil's federal environmental protection agency to local officials. The federal government maintains that local officials are better placed to manage such resources, but critics argue that local authorities lack the necessary finances and are more susceptible to intimidation and corruption.[129] In 2012, the Brazilian Congress approved a major overhaul of the forest code—a law that requires rural landowners to set aside 20%-80% of their land for natural vegetation. President Rousseff vetoed some of the most controversial provisions of the legislation, but the final version relaxed conservation requirements for environmentally sensitive areas like river banks, reduced reforestation requirements for land that had already been deforested, and decreased the total

[120] Eric A. Davidson et al., "The Amazon Basin in Transition," *Nature*, vol. 481 (January 19, 2012), p. 321.

[121] The seven nations that share the Amazon Basin are Brazil, Bolivia, Colombia, Ecuador, Guyana, Peru, and Venezuela. The Amazon Rainforest extends beyond the Amazon Basin into Suriname and French Guiana.

[122] UNEP, 2004, op. cit.

[123] Davidson et al., 2012, op. cit., p. 321.

[124] See, for example, Fabiana Frayssinet, "Climate Change-Brazil: Farmers 'Have Good Reason to Worry'," Inter Press Service, September 21, 2011; "Amazon Rainforest Begins to Fail to Regulate Climate – Scientist," BBC Monitoring Americas, November 5, 2014; and Mario Osava, "Brazil: Deforestation in the Amazon Aggravates Energy Crisis," Inter Press Service, April 3, 2015.

[125] "Brazil to Spend $216 Mn on Protected Areas in Amazon," EFE News Service, May 22, 2014.

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

[127] República Federativa do Brasil, Ministério da Ciência, Tecnologia e Inovação, Instituto Nacional de Pesquisas Espaciais (INPE), *Projeto PRODES, Monitoramento da Floresta Amazônica Brasileira por Satélite*, November 27, 2015.

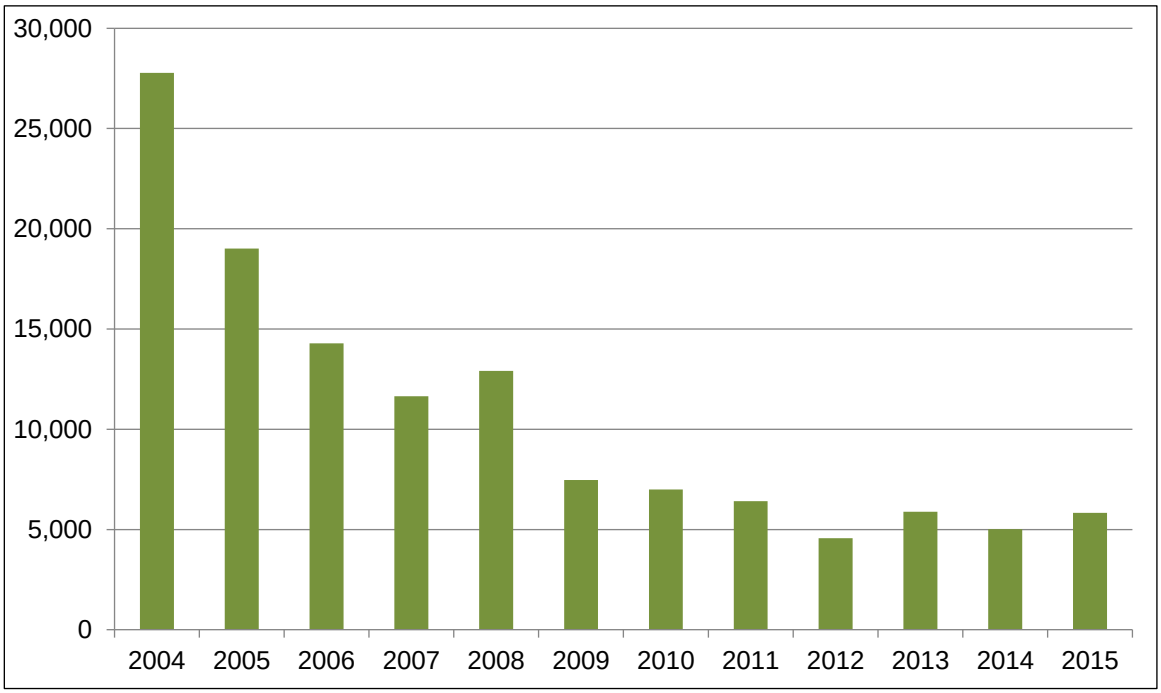
[128] INPE, November 2015, op.cit.

[129] Paulo Prada, "Special Report: Brazil Backslides on Protecting the Amazon," Reuters, August 3, 2012.

amount of forest that must be preserved.[130] Supporters of the reform assert that it was necessary in order to bring farmers into compliance with the law, and argue that the updated forest code remains among the strictest regulations of private property in the world.[131] Rousseff's decision to appoint two climate change skeptics to her cabinet has raised further questions about her administration's commitment to conservation.[132]

Figure 4. Deforestation in the Brazilian Amazon: 2004-2015

In square kilometers



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

The United States has provided assistance to Brazil designed to support tropical forest conservation through the promotion of sustainable land use and encouragement of environmentally friendly income generation activities for the rural poor. In FY2006, USAID initiated the Amazon Basin Conservation Initiative, which supports community groups, governments, and other organizations working throughout the Amazon Basin to conserve the forest's biodiversity. USAID provided Brazil with $9.6 million in FY2013, $10.5 million in FY2014, and $10.5 million in FY2015 to continue those programs.[133] The Obama Administration did not request any funds for conservation efforts in Brazil in FY2016. Nevertheless, the Consolidated Appropriations Act, 2016 (P.L. 114-113) recommends providing $10.5 million for environmental programs in the Brazilian Amazon this fiscal year.

[130] "Brazil President Makes Final Changes to Forestry Law," Agence France Presse, October 18, 2012.

[131] Reese Ewing, "Interview-Brazil Land Use Bill to Make Forests Profitable," Reuters, June 1, 2011.

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

[133] USAID data, as presented by the *Foreign Assistance Dashboard*, November 2014.

In addition to providing foreign aid, the United States signed a debt-for-nature agreement with Brazil in 2010 under the Tropical Forest Conservation Act of 2008 (P.L. 105-214). Under the agreement, the United States reduced Brazil's debt payments by $21 million over five years. In exchange, the Brazilian government committed those funds to activities to conserve protected areas, improve natural resource management, and develop sustainable livelihoods in endangered areas outside of the Amazon Rainforest such as the Atlantic Rainforest, Caatinga, and Cerrado ecosystems.[134]

Author Information

Peter J. Meyer
Analyst in Latin American Affairs

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[134] 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.