

# CRS Report for Congress

## Brazil-U.S. Relations

Updated February 28, 2007

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Prepared for Members and  
Committees of Congress

# Report Documentation Page

Form Approved  
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE <b>28 FEB 2007</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2007 to 00-00-2007</b>	
4. TITLE AND SUBTITLE <b>Brazil-U.S. Relations</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research Service, Library of Congress, 101 Independence Ave, SE, Washington, DC, 20540-7500</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

# Brazil-U.S. Relations

## Summary

On January 1, 2007, Luis Inácio “Lula” da Silva, of the leftist Workers’ Party (PT), was inaugurated for a second four-year term as President of Brazil. President Lula defeated Geraldo Alckmin, former governor of the state of São Paulo, of the Brazilian Social Democratic Party (PSDB), in a run-off presidential election held on October 29, 2006. Lula captured 61% of the votes as compared to Alckmin’s 39%, winning handily in the poorer north and northeastern regions of the country but failing to carry the more prosperous southern and western states or São Paulo, the country’s industrial and financial hub.

President Lula has been working to make cabinet appointments and to form a governing coalition capable of pushing his agenda through Brazil’s notoriously fractured legislature. His immediate tasks are to boost Brazil’s lagging economic growth and to address the issues of crime and violence. Some analysts predict that ongoing corruption investigations involving President Lula’s PT party may undermine the strength of his second term in office.

Relations with the United States have been generally positive, although President Lula has made relations with neighboring countries in the Southern Common Market (Mercosul) his first priority, and has sought to strengthen ties with nontraditional partners, including India and China. Many analysts believe Brazil-U.S. cooperation may increase during President Lula’s second term, particularly on energy issues. Brazilian and U.S. officials are currently negotiating an agreement to promote greater ethanol production and use throughout Latin America, the details of which are expected to be announced after two upcoming meetings between President Bush and President Lula. President Bush is scheduled to visit Brazil on March 9, which will be followed by a visit from President Lula to Camp David on March 31.

In recent years, congressional interest in Brazil has focused on the U.S.-Brazilian bilateral trade relationship, as well as Brazil’s role in sub-regional, regional, and global trade talks in the Doha round of the World Trade Organization (WTO) negotiations. In December 2006, Congress extended trade preferences for Brazil under the Generalized System of Preferences (GSP), but set thresholds that may limit trade preferences for some Brazilian exports compared to previous years. Interest in Brazil also centers on its role as a stabilizing force in Latin America, especially with respect to Venezuela and Bolivia. Brazil’s role as an ethanol producer has generated growing interest in Congress. In addition, Brazil is a key U.S. ally whose cooperation is sought on issues that include counternarcotics and counterterrorism efforts; human rights concerns, such as race relations and trafficking in persons; the environment, including protection of the Amazon; and HIV/AIDS prevention.

This report analyzes Brazil’s political, economic, and social conditions, and how those conditions affect its role in the region and its relationship with the United States. For additional information, see CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J.F. Hornbeck. This report will be updated.

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# Brazil-U.S. Relations

## Background

Brazil is a significant political and economic power in Latin America, but deep-seated social and economic problems have kept it from realizing its goal of becoming a truly global leader. A former Portuguese colony that achieved independence in 1822, Brazil occupies almost half of the continent of South America and boasts immense biodiversity, including the vast Amazon rainforest, and significant natural resources. Brazil is the fifth most populous country in the world. Brazil's 188 million citizens are primarily of European, African, or mixed African and European descent.<sup>1</sup> With an estimated gross domestic product (GDP) of \$786 billion in 2006, Brazil's diversified economy is the eleventh largest in the world, the largest in Latin America, and one of the largest in the developing world, but per capita gross national income is only \$3,460, and the country has a highly unequal income distribution. Brazil has long held potential to become a major world power, but its rise to prominence has been held back by political setbacks, including twenty-one years of military rule (1964-1985), social problems, and slow and uneven economic growth. This apparent failure to live up to its enormous potential has resulted in the common adage, "Brazil is the land of the future, and always will be."<sup>2</sup>

Between World War II and 1990, both democratic and military governments sought to expand Brazil's influence in the world by pursuing a state-led industrial policy and an independent foreign policy. Brazilian foreign policy has recently aimed to strengthen ties with other South American countries, engage in multilateral diplomacy through the United Nations (U.N.) and the Organization of American States (OAS), and act at times as a countervailing force to U.S. political and economic influence in Latin America. In addition to its active engagement in regional and multilateral trade talks, Brazil under President Luis Inácio "Lula" da Silva has helped diffuse potential political crises in Venezuela, Ecuador, and Bolivia, and supported Colombia's ongoing struggle against terrorist organizations and drug traffickers. Brazil is also commanding the U.N. stabilization force in Haiti.

Currently, relations between the United States and Brazil are characterized as fairly warm and friendly. The United States has increasingly regarded Brazil as a

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<sup>1</sup> Brazil has never had a large indigenous population. Today Brazil's indigenous population consists of roughly 400,000 persons (0.9% of the country's population), many of whom reside in the Amazon. U.S. Department of State, *Country Reports on Human Rights Practices 2005: Brazil*, February 2006.

<sup>2</sup> Lincoln Gordon, *Brazil's Second Change En Route Toward the First World*, Washington, D.C.: The Century Foundation, 2001; Iêda Siqueira Wiarda, "Brazil: The Politics of A New Order and Progress," in *Latin American Politics and Development*, Howard J. Wiarda and Harvey F. Kline, eds., Boulder, CO: Westview Press, 2000.

significant power, especially in its role as a stabilizing force and skillful interlocutor in Latin America. U.S. officials tend to describe Brazil, similar to Chile, as a friendly country governed by a moderate leftist government that shares the U.S. commitment to democratic practices, human rights, and prudent macroeconomic policies. They assert that the United States seeks to increase cooperation with moderate leftist governments in Latin America in order to diffuse mounting tensions among the countries in South America, and to deal with populist governments in the region.

Although they share common goals for regional stability, Brazil's independent approach to foreign policy has led to periodic disputes with the United States on trade and political issues, including Brazil's vocal opposition to the war in Iraq. Despite these disagreements, Brazil and the United States have worked closely on a wide range of bilateral and regional issues. In addition to trade matters, these issues include counter-narcotics and terrorism, energy security, human rights protection, environmental issues (including protection of the Amazon), and HIV/AIDS. Brazilian and U.S. officials are currently formulating an agreement on ethanol and technology development that is expected to be signed by President Bush and President Lula in March 2007.

## Political Situation

The Brazilian political system has several unique characteristics that distinguish it from other countries in Latin America. The country's federal structure, comprising 26 states, a Federal District, and some 5,581 municipalities, evolved from the decentralized colonial structure devised by the Portuguese in an attempt to control Brazil's sizable territory. Even during the centralizing government of Getúlio Vargas and the Estado Novo, or New State, (1937-1945), landowning remained the source of local power in Brazil and states retained considerable autonomy from the federal government. Brazil's military governments ruled from 1964-1985 and, while repressive, were not as brutal as their counterparts in other South American countries. Although nominally allowing a two-party system, judiciary, and Congress to function during its tenure, the Brazilian military stifled representative democracy and civic action in Brazil, carefully preserving its influence during one of the most protracted transitions to democracy to take place in Latin America. Brazil also stands out as one of the last countries in the region to abandon state-led economic policies in favor of market reforms. Significant pro-market reforms did not occur until the government of Fernando Henrique Cardoso (1994-2002).<sup>3</sup>

During the first decade after its return to democracy in 1985, Brazil experienced economic recession and political uncertainty as numerous efforts to control runaway inflation failed and two elected presidents did not complete their terms. One elected president died before taking office; the other was impeached on corruption charges. In 1994, Cardoso, a prominent sociologist of the center-left Brazilian Social

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<sup>3</sup> For a historical overview of Brazil's political development, see Bolivar Lamounier, "Brazil: Inequality Against Democracy," in Larry Diamond, Jonathan Hughes, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Latin America*, Boulder, CO: Lynne Reiner, 1999.

Democratic Party (PSDB), was elected by a wide margin over Luis Inácio “Lula” da Silva of the Worker’s Party (PT), a former metalworker and union leader who had led the PT since the early 1980s. Cardoso was elected largely on the basis of the success of the anti-inflation “Real Plan” that he implemented as Finance Minister earlier that year. The plan resulted in a new currency (the real) pegged to the dollar beginning in July of 1994. During his first term, Cardoso achieved macroeconomic stability, opened the Brazilian economy to trade and investment, and furthered privatization efforts begun in the early 1990s. Despite those achievements, the Cardoso government was unable to enact much needed political and social changes, such as social security, tax, or judicial reforms.

President Cardoso sought a second presidential term after a constitutional reform was passed in 1997 to allow for reelection, and he defeated Lula da Silva in the first presidential election round in October 1998 with 53% of the vote. President Cardoso’s popularity fell towards the end of his second term, however, as Brazil faced a major financial crisis in 1998, as well as contagion effects from Argentina’s financial collapse in 2001. Most analysts credit Cardoso with restoring macroeconomic stability to Brazil’s economy and solidifying its role as leader of the Southern Common Market (Mercosul)<sup>4</sup>, but fault him for failing to implement more aggressive political reforms or more effective social programs.<sup>5</sup>

## Lula Administration

In 2002, Lula da Silva ran in his fourth campaign for the presidency of Brazil. Unlike in his previous failed campaigns, he moderated his leftist rhetoric and, while still advocating greater attention to social issues, promised to maintain the fiscal and monetary policies associated with Brazil’s standing International Monetary Fund (IMF) agreements. Lula, as he prefers to be known, argued for a more aggressive foreign policy and for strengthening of Mercosul, but was often critical of the proposed Free Trade Area of the Americas (FTAA).

The 2002 presidential election proved to be a referendum on eight years of “neo-liberal” policies enacted by the Cardoso government. High unemployment rates and economic stagnation led voters to support Lula, a critic of neoliberalism. Although Lula did not win in the first round of voting, he was elected decisively in the second round with 61% of the valid vote, as compared to Cardoso’s designated successor, José Serra, the Minister of Health and Senator from São Paulo, with 39%. Several factors may account for Lula’s presidential victory and the PT’s strong showing in the 2002 congressional elections. They include the PT’s reputation as a “clean”

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<sup>4</sup> Mercosul is the Portuguese variation of the more widely seen Spanish acronym, Mercosur. It is a common market composed of Brazil, Argentina, Paraguay, and Uruguay that was established in 1991.

<sup>5</sup> Susan Kaufman Purcell and Riordan Roett, eds., *Brazil Under Cardoso*, Boulder, CO: Lynne Reiner Publishers, 1997; Mauricio A. Font and Anthony Peter Spanakos, *Reforming Brazil*, New York: Lexington Books, 2004;

political party untainted by corruption; the PT's promise to increase state investment in education, health care, and agrarian reform; and Lula's compelling personal story.<sup>6</sup>

In January 2003, Lula da Silva was inaugurated for a four-year term as President of Brazil. During his first term, President Lula maintained the restrained economic policies associated with his predecessor, even surpassing the IMF's fiscal and monetary targets. In 2003, the Lula government enacted social security and tax reforms, and in 2004, a law to allow more private investment in public infrastructure projects. President Lula launched several social programs, some of which have been more successful than others. The *Bolsa Familia* (Family Grant) program, which provides monthly stipends to 11.1 million poor families in exchange for compulsory school attendance for all school-age children, has been credited with poverty reduction. Its success has been limited, however, by bureaucratic problems and local corruption. Some argue that it has made poor households more reliant on government handouts than on earned income.<sup>7</sup>

By 2005, legislative progress had stalled, and President Lula was increasingly criticized for failing to develop effective programs to address Brazil's ongoing problems with land distribution and crime. Critics argued that, ironically, one of the first Lula government's only major achievements was to maintain the orthodox economic policies of the Cardoso administration. In 2006, some analysts began to dismiss President Lula's efforts to expand Brazil's international profile as a leader among developing countries as "a relatively inexpensive [tactic] to shore up domestic support"<sup>8</sup> that had failed to yield many concrete results.

**Corruption Scandals.** Many political scientists have asserted that the fragmented nature of Brazil's electoral and party systems have made the country extremely difficult to govern. They maintain that the country's institutions create incentives that encourage politicians to concentrate on delivering pork-barrel programs to their political benefactors rather than on legislating issues of national concern. In addition, Brazilian political parties tend to be more personalistic than ideological, and many are locally or regionally based rather than national in scope. As a result, forming successful governing coalitions in Brazil often has less to do with finding political parties with ideological similarities than with distributing ministries or other patronage in exchange for political support.<sup>9</sup> Many Brazilians had hoped that the PT would be able to clean up Brazilian politics, but those hopes seemed dashed in the wake of a series of corruption scandals involving top PT officials, the first of which erupted in May 2005.<sup>10</sup>

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<sup>6</sup> Wendy Hunter and Timothy J. Power, "The Lula Government at Mid-Term: Shaping a Third Decade of Democracy in Brazil," *Journal of Democracy*, July 2005.

<sup>7</sup> Anthony Hall, "From *Fome Zero* to *Bolsa Familia*: Social Policies and Poverty Alleviation Under Lula," *Journal of Latin American Studies*, vol. 38, November 2006.

<sup>8</sup> Jeffrey Cason, "Hopes Dashed? Lula's Brazil," *Current History*, February 2006.

<sup>9</sup> Barry Ames, *The Deadlock of Democracy in Brazil*, Ann Arbor, MI: University of Michigan Press, 2001.

<sup>10</sup> Wendy Hunter, "The Normalization of An Anomaly: The Worker's Party in Brazil," Paper (continued...)



The main corruption scandal, which resulted in the resignation of several senior PT officials and the impeachment of several legislators, including President Lula's former Chief of Staff who had since returned to Congress, involved the President's party allegedly paying monthly bribes (*mensalões*) to congressmen of the allied parties in the governing coalition to guarantee their support. Another scandal involved allegations that the PT and other parties used off-the-books accounting systems to pay for their campaigns. In late March 2006, Finance Minister Antonio Palocci was forced to resign amidst allegations of corruption. Although many believe President Lula had to be aware of the bribery and irregular financing schemes, a congressional inquiry in April 2006 cleared President Lula of any direct responsibility for the scandals.

In May 2006, Brazil's federal police released a list of 69 congressmen who were allegedly involved in another unrelated scandal involving the release of money from the health ministry for the purchase of ambulances without public notification. By December 2006, a congressional committee announced that it could not find enough evidence to indict any of those congressmen. The corruption and apparent impunity in the 2003-2006 Congress caused the Brazilian press to dismiss it as "the worst ever in Brazilian history."<sup>11</sup>

As a result of the corruption scandals, both President Lula and the Worker's Party have lost popular support and credibility. Despite the initial popular outrage, the PT decided not to investigate or punish any party members allegedly involved in any of the scandals until after the election campaign.

**October 2006 Elections.** On October 1, 2006, Brazilians headed to the polls to elect a new president and vice president, federal legislators, and governors. Months before the election, most analysts predicted that President Lula would soundly defeat his main opponent Geraldo Alckmin, former governor of the state of São Paulo of the PSDB, in the first round. The presidential race tightened, however, when top Lula advisers were accused of trying to buy a dossier with damaging information on Alckmin and then-gubernatorial candidate Jose Serra just two weeks prior to the election. Voters appeared to punish Lula for the scandal by denying him a first round victory. They also denied reelection to 61 of the legislators suspected of participating in the ambulance scandal.<sup>12</sup>

In the October 29 second round, Lula overcame his first-round setback, capturing 61% of the votes to Alckmin's 39%. President Lula won handily in the poorer north and northeastern regions of the country but failed to carry the more prosperous southern and western states or São Paulo. Observers have assessed that Brazilians, though divided by class and region, effectively voted in favor of

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<sup>10</sup> (...continued)

Presented at the Latin American Studies Association Conference, San Juan, Puerto Rico, March 2006.

<sup>11</sup> "Leadership Contests Cast Doubt on New Legislature," *Latin American Brazil and Southern Cone Report*, January 2007.

<sup>12</sup> "Voters Rebuff of Lula Shows Impact of Scandals," *Miami Herald*, October 3, 2006.

continuing macroeconomic stability under a second Lula Administration despite the corruption scandals that had involved Lula's party, including many of his closest advisers, during the first term.

The PT did not fare as well as President Lula in the legislative elections. In the Chamber of Deputies, the PT secured 83 seats, 9 less than in 2002. In the Senate, the PT suffered a loss of 4 seats. In contrast, previous ruling parties increased their congressional delegations. Some assert that election outcome shows that President Lula successfully distanced himself from the PT and its corruption scandals, relying on his personal popularity and charisma rather than his party affiliation to win the election. Many others attribute his electoral success to the success of his Bolsa Familia program and the country's macroeconomic stability, which led voters in poorer income brackets to support his reelection.<sup>13</sup>

**Prospects for Lula's Second Term.** On January 1, 2007, Lula was inaugurated for a second four-year term as President of Brazil. President Lula is struggling to make cabinet appointments and form a governing coalition capable of pushing his agenda through Brazil's notoriously fractured legislature. He is currently dealing with intra-party conflicts between the PT and the Brazilian Democratic Movement Party (PMDB), the two largest parties in his fragile coalition, as well as internal divisions within the PT. Many predict that these conflicts may complicate his immediate tasks: boosting Brazil's lagging economic growth and addressing the issues of crime and violence. Some analysts feel that ongoing investigations against President Lula's PT party may also undermine the strength of his second term in office. Many believe that President Lula will tone down his foreign policy ambition, and may focus on improving relations with the United States.<sup>14</sup>

## Economic and Social Conditions

Brazil is a regional leader in Latin America, but its rise to global prominence has been hindered by significant economic and social problems.

### Economic Conditions

Throughout the last two decades, Brazil's fiscal and monetary policies have achieved mixed results by focusing primarily on inflation control. When President Lula took office in 2003, Brazil had an extremely high level of public debt, virtually necessitating that he adopt austere economic policies. Despite his leftist political origins, President Lula has maintained restrained economic policies, even surpassing the IMF's fiscal and monetary targets. As a result, Brazil has begun to experience

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<sup>13</sup> Matt Moffett and Geraldo Samor, "In Brazil Campaign, A Barroom Brawl and a Class War," *Wall Street Journal*, October 27, 2006; Wendy Hunter and Timothy J. Power, "Rewarding Lula: Executive Power, Social Policy, and the Brazilian Elections of 2006," *Latin American Politics and Society*, (forthcoming)

<sup>14</sup> "Country Report: Brazil," *Economist Intelligence Unit*, January 2007; "Brazil Tones Down Leadership Ambitions," *Latin News Weekly Report*, November 7, 2006.

some benefits, including lower inflation (just over 3% in 2006) and a lower credit risk rating. In December 2005, the Lula government repaid its \$15.5 billion debt to the IMF ahead of schedule. The government's overall foreign debt was reduced by 19.9% between 2003 and 2006.<sup>15</sup> Fiscal discipline has also been accompanied by record exports that enabled Brazil to post GDP growth of 4.9% in 2004 and record trade surpluses in 2004, 2005, and 2006.

Brazil is a major exporter of agricultural and industrial products, with each accounting for about 30% of the country's exports, and plays a significant role in the world trading system. Since 2002, Brazil has been the world's third largest exporter of agricultural products after the United States and the European Union. In 2005, Brazil was the world's leading exporter of coffee, orange juice, sugar, chicken, beef, and tobacco. It was the second biggest exporter of soybean products and the fourth largest exporter of cotton and pork. Brazil has a relatively balanced trade regime. Its main trading partners in 2005 were the European Union (22% of exports and 25% of imports), the United States (19% of exports, 17% of imports), Asia (20% of exports, 27% of imports, with China alone accounting for 6% of exports and 7% of imports), Latin America (22% of exports, 15% of imports), Africa (4% of exports, 9% of imports), and the Middle East (4% of exports and imports). In 2005, the value of Brazil's exports reached \$120 billion and the country's trade surplus was \$45 billion.<sup>16</sup>

Despite some positive economic and trade indicators, Brazil's economic growth has lagged behind other emerging economies. Since 2000, Brazil's growth rates have averaged about 2.7%, as compared to Russia with 6.7%, India with 6.5%, and China with 9.4%. In 2006, Brazil posted GDP growth of only about 2.8%, the second lowest growth rate recorded in Latin America.<sup>17</sup> Brazil's growth rates have been constrained by a high public debt burden, excessive taxation, and lack of investment. Investment in Brazil has been limited by the country's high interest rates, extremely complex tax system, weak regulatory framework, and lack of a competitive labor force. A November 2006 report by the Organization for Economic Co-operation and Development (OECD), which echoed the opinions voiced by most financial analysts, said that reforming Brazil's unwieldy public pension system was crucial in order for the country to boost its growth rates.

On January 22, 2007, President Lula announced a Program to Accelerate Growth (PAC) aimed at boosting Brazil's growth rates to 5% per year by 2008 through increased public and private investment in energy, logistics, housing, and water sanitation. The PAC's goal is for investments totaling some \$235 billion to be made over the next four years, with state-owned companies, particularly Petrobras,

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<sup>15</sup> "Brazil Foreign Debt at \$168.9 Billion End-2006," *Latin America News Digest*, January 26, 2007.

<sup>16</sup> Sources: Brazilian Ministry of Development, Industry, and Foreign Trade, U.S. Department of Agriculture's Foreign Agriculture Service, United Nation's Food and Agriculture Organization. Sources elaborated by Marcos Jank, Institute for International Trade Negotiations, São Paulo, Brazil.

<sup>17</sup> "Preliminary Overview of the Economies of Latin America and the Caribbean 2006," U.N. Economic Commission for Latin America and the Caribbean, December 2006.

Brazil's state-owned oil company, responsible for the bulk of that figure. It provides tax breaks and incentives to spur housing construction and includes measures to improve and simplify Brazil's regulatory framework. Although some have praised the PAC's focus on boosting government investment in much-needed infrastructure projects, many others have criticized it for failing to include measures to curb excessive public spending or to enact labor reform.<sup>18</sup>

## Social Indicators

Brazil has a well-developed economy and large resource base, but has had major problems solving deep-seated social problems like poverty and income inequality. Brazil has one of the most unequal income distributions in Latin America, a region with the highest income inequality in the world, and a 2004 World Bank study reported that some 50 million Brazilians live in poverty.<sup>19</sup> The United Nations Development Program (UNDP) has identified 600 Brazilian municipalities, many in the north and northeastern part of the country, in which poverty levels are similar to those present in poor African countries. One major cause of poverty and inequality in Brazil is historically extreme land concentration among the country's elites. In Brazil, 1% of the population controls 45% of the farmland.<sup>20</sup> In addition to the country's regional income disparities and unequal land distribution, the Brazilian government has acknowledged that there is a racial component to poverty in Brazil. People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.<sup>21</sup> Other factors that inhibit the social mobility of Brazil's poor include a lack of access to quality education, and a lack of opportunity for job training and improvement.

Brazil's endemic poverty and inequality have, until recently, not been significantly affected by the government's social programs. A March 2005 OECD study found that, even though Brazil has spent the same level or more of public spending on social programs as other countries with similar income levels, it has not achieved the same social indicators as those countries.<sup>22</sup> There has been more recent evidence, however, that the Lula government's Bolsa Familia (Family Stipend)

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<sup>18</sup> "Brazil: Expansive Mood," *EIU Business Latin America*, January 29, 2007; "Stirred, But Not Shaken Up," *Economist*, January 25, 2007; Jonathan Wheatley and Richard Lapper, "Left Turn Ahead? How Lula's Plan Could Condemn Brazil to Mediocrity," *Financial Times*, February 21, 2007.

<sup>19</sup> David De Ferranti et al., *Inequality in Latin America: Breaking with History?* Washington, DC: The World Bank, 2004.

<sup>20</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>21</sup> Ricard Henriques, "Desigualdade racial no Brasil," Brasilia: *Instituto de Pesquisa Econômica Aplicada (IPEA)*, 2001.

<sup>22</sup> "Economic Survey of Brazil 2005," *Organization for Economic Cooperation and Development*, March 2005.

program, combined with relative macroeconomic stability over the past few years, has reduced poverty rates, particularly in the north and northeast of Brazil.<sup>23</sup>

## Foreign and Trade Policy

Brazil's foreign policy is a byproduct of the country's unique position as a regional power in Latin America, a leader among developing countries, and an emerging world power. Brazilian foreign policy has generally been based on the principles of multilateralism, peaceful dispute settlement, and nonintervention in the affairs of other countries.<sup>24</sup> Brazil engages in multilateral diplomacy through the OAS and the U.N., and has increased ties with developing countries in Africa and Asia. Brazil is currently commanding a multinational U.N. stabilization force of some 8,900 police and military personnel in Haiti. Instead of pursuing unilateral prerogatives, Brazilian foreign policy has tended to emphasize regional integration, first through the Common Market of the South (Mercosul) and now the South American Community of Nations. Brazil's role as a leader in South America has recently been challenged by the rise of Hugo Chávez in Venezuela, who has used his country's vast oil wealth to gain influence in the region, particularly in Bolivia and Ecuador.

Since the mid-1990s, Brazil has had much more success in developing political cohesion than true economic integration amongst its neighbors in the Southern Cone. Mercosul was established in 1991 by Brazil, Argentina, Paraguay, and Uruguay. In 1996, Chile and Bolivia became "associate members"; Peru followed in 2003 (not implemented) and Venezuela and Mexico in 2004. Associate members have no voting rights and need not observe the common external tariff. In October 2004, after years of talks, Mercosul and the Andean Community of Nations signed a trade pact, giving all Andean countries — Bolivia, Colombia, Ecuador, Peru, and Venezuela — the equivalent of associate membership. This breakthrough led to the creation of the South American Community of Nations two months later in a pact that included 12 countries (those in Mercosul, the Andean Community, along with Chile, Guyana, and Suriname). In December 2005, Mercosul agreed to the accession of Venezuela as a full member, which some say has added a decidedly anti-American factor to the pact. In December 2006, Bolivia expressed its intention to join Mercosul as a full member, but critics say that its accession would politicize the union unnecessarily.<sup>25</sup>

Recent events have not boded well for the future of Mercosul. In 2006, the weakness of Mercosul's internal dispute resolution process became apparent as it was unable to resolve a dispute between Argentina and Uruguay over whether to

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<sup>23</sup> Hall, "From *Fome Zero* to *Bolsa Familia*," November 2006.

<sup>24</sup> Georges D. Landau, "The Decisionmaking Process in Foreign Policy: The Case of Brazil," *Center for Strategic and International Studies*: Washington, DC: March 2003.

<sup>25</sup> See CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J.F. Hornbeck; "Disappointing Summit Fails to Address Mercosur Schism," *Latin American Brazil and Southern Cone Report*, January 2007.

allow European companies to construct two paper mills along the river that demarcates their border. At the same time, Uruguay has diversified its trade with the United States and even threatened to withdraw from Mercosul, arguing that it seems to serve only the needs of Argentina and Brazil. Trade asymmetries among the Mercosul members was left unaddressed at a December 2006 Mercosul summit, but Argentina and Brazil did agree to fund new development projects in Paraguay and Uruguay through the union's Structural Convergence Fund.<sup>26</sup>

In addition to trying to expand its regional profile through established political and economic channels, Brazilian government and business officials have, at times, worked together to expand the country's commercial interests in the region. Petrobras, Brazil's state-owned oil company, has made extensive investments in Bolivia's natural gas sector. Most analysts predicted that since Petrobras produces some 15-20% of Bolivia's GDP, Brazil would be able to exert important economic and political leverage over the new Bolivian government led by populist Evo Morales. Analysts, government officials, and the Brazilian public have criticized President Lula for failing to more vigorously defend Brazil's energy interests in Bolivia after Morales' surprise decision to nationalize his country's natural gas industry on May 1, 2006. Those criticisms escalated after a recent presidential summit in which President Lula acceded to several of President Morales' demands — including cutting tariffs for Bolivian exports to Brazil and stepping up investments in Bolivia — in order to secure an agreement over the price of natural gas.<sup>27</sup> Bolivia's nationalization decision, which has been supported by the Chávez government in Venezuela, may make other sectoral initiatives that have been proposed — including a South American gas pipeline that would carry Venezuela's gas through Brazil to Argentina — less likely to be pursued.

Brazil's political, business, and military ventures are complemented by the country's trade policy. In Brazil, the Ministry of Foreign Relations continues to dominate trade policy, causing the country's commercial interests to be (at times) subsumed by a larger foreign policy goal, namely, enhancing Brazil's influence in Latin America and the world.<sup>28</sup> For example, while concluding meaningful trade agreements with developed economies (such as the United States and the European Union) would probably be beneficial to Brazil's long-term economic self-interest, the Brazilian government has instead prioritized its leadership role within Mercosul and expanded trade ties with countries in Africa, Asia and the Middle East.

Some analysts assert that these "south-south" initiatives have enhanced Brazil's international profile, but others have noted that they have yielded few concrete results for the country, and that they have come at the expense of Brazil-U.S. relations. Roberto Abdenur, the former Brazilian Ambassador to Washington, has recently

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<sup>26</sup> Ibid.

<sup>27</sup> Andres Oppenheimer, "Powerful Brazil is Becoming an Encircled Giant," *Miami Herald*, May 14, 2006; "Bolivia's Populism Steps on Brazil," *Christian Science Monitor*, May 8, 2006; "Brazil May Pay a Price for Generous Deal on Gas," *Financial Times*, February 22, 2007.

<sup>28</sup> See CRS Report RL33258, *Brazilian Trade Policy and the United States*, by J.F. Hornbeck.

criticized the “south-south” approach of the Brazilian Foreign Ministry for indoctrinating Brazilian diplomats with “anti-imperialist” and “anti-American” attitudes.<sup>29</sup>

## Relations with the United States

As a result of its significant political and economic clout, Brazil’s leaders have traditionally preferred to cooperate with the United States on specific issues rather than seeking to develop an all-encompassing, privileged relationship with the United States. The United States, in turn, has increasingly regarded Brazil as a stabilizing force and skillful interlocutor in the hemisphere. While the two nations may disagree on trade issues, they agree on the importance of maintaining regional stability and security, fighting terrorism, and combating narcotics, arms, and human trafficking.<sup>30</sup>

Current bilateral relations between the countries are characterized as fairly warm and friendly, despite the differing political approaches of President Lula and President Bush on some issues. On June 20, 2003, President Lula made an official visit to the United States, and he and President Bush resolved “to create a closer and qualitatively stronger [bilateral] relationship.” On November 6, 2005, President Bush visited Brasília on his return from the Summit of the Americas in Argentina, and the two leaders reaffirmed the good relations between the countries and pledged to work together to advance peace, democracy, and a successful conclusion of the Doha round of global trade talks. President Bush thanked Brazil for exercising leadership in the world and in the hemisphere, including Brazil’s role in the peacekeeping force in Haiti, and worldwide efforts to control HIV/AIDS.<sup>31</sup>

Many analysts believe Brazil-U.S. cooperation may increase during President Lula’s second term, particularly on energy issues. Brazilian and U.S. officials are currently discussing an agreement to promote greater ethanol production and use throughout Latin America, the details of which are expected to be announced after two upcoming meetings between President Bush and President Lula. President Bush is scheduled to visit Brazil on March 9, which will be followed by a visit from President Lula to Camp David on March 31.

Brazil is considered a middle-income country and does not receive large amounts of U.S. foreign assistance. In FY2006, Brazil received an estimated allocation of \$13.6 million. In FY2007, the Administration requested \$19.2 million for Brazil, but actual aid amounts for FY2007 are not yet available. Foreign operations programs are currently operating under the terms of a continuing

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<sup>29</sup> Otávio Cabral, “Nem na Ditadura,” *Veja*, February 7, 2007.

<sup>30</sup> Peter Hakim, “The Reluctant Partner,” *Foreign Affairs*, Jan/Feb 2004; Carlos Eduardo Lins, “La Casa Blanca y El Planalto: Respeto y Solidaridad,” *Foreign Affairs En Español*, January-March 2003.

<sup>31</sup> See “President Bush Meets with President Lula of Brazil” and “Joint Statement on the Visit by President George W. Bush to Brazil,” November 6, 2005, on the White House website.

appropriations resolution (P.L. 109-289, as amended) that provides funding at the FY2006 level with some adjustments. The FY2008 request for Brazil is \$3.7 million. The FY2008 request for Brazil is substantially lower than in previous years. The largest cuts appear in counter-narcotics assistance, from \$5.9 million in FY2006, to only \$1 million in the FY2008 request. However, for the first time in several years, the FY2008 request includes some \$200,000 in International Military Education and Training (IMET) for the Brazilian military due to the de-linking of IMET from American Servicemembers' Protection Act (ASPA) sanctions.<sup>32</sup>

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

The Bush Administration has come to view Brazil as a strong partner whose cooperation must be sought in order to solve regional and global problems. Current issues of concern to both Brazil and the United States include counter-narcotics and terrorism, energy security, trade, environmental issues, human rights, and HIV/AIDS.

### Counter-Narcotics and Counter-Terrorism

Brazil is not a significant drug producing country, but is a major conduit for the transit of cocaine, marijuana, and some heroin from neighboring Andean countries destined primarily for Europe, the United States, and local markets. It is the second largest consumer (after the United States) of cocaine in the western hemisphere. The Bush Administration includes Brazil on a list of major drug-producing or drug-transit countries.<sup>33</sup> In FY2006 Brazil received an estimated \$5.9 million in U.S. counter-narcotics assistance through the Andean Counterdrug Initiative (ACI). FY2007 ACI funds requested for Brazil totaled \$4 million, mainly for interdiction and law enforcement activities. In FY2008, the Administration requested \$1 million in ACI funding for Brazil.

In recent years, Brazil has cooperated extensively with neighboring countries in counter-narcotics activities, adopted a new strategy against money laundering, and implemented a law permitting the shooting down of civilian aircraft (with adequate safeguards) suspected of being engaged in the trafficking of illicit narcotics. Brazil has also constructed a \$1.4 billion sensor and radar project called the Amazon Vigilance System (SIVAM from its acronym in Portuguese) in an attempt to control illicit activity in its Amazon region. Brazil has offered to share data from this system with neighboring countries and the United States. In 2005, Brazil's federal police, which generally are responsible for about 75% of total Brazilian drug seizures and detentions, captured 15.8 metric tons of cocaine and 126 kilograms of crack cocaine.<sup>34</sup> In May 2006, Brazilian police, participating in a coordinated law enforcement effort run by the U.S. Drug Enforcement Administration, arrested a

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<sup>32</sup> For more information on ASPA sanctions, see CRS Report RL33337, *Article 98 Agreements and Sanctions on U.S. Foreign Aid to Latin America*, by Clare M. Ribando.

<sup>33</sup> "Bush Cites 20 Nations as Major Drug-Transit/Producer Countries," September 15, 2005, U.S. Department of State, Washington File, [<http://usinfo.state.gov>].

<sup>34</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, March 2006.



major Colombian-born drug trafficker accused of smuggling more than 70 tons of cocaine to the United States. These seizures and arrests are likely to increase as Brazil expands its cooperation with neighboring countries by establishing joint intelligence centers.

The U.S. State Department's Country Report on Terrorism covering 2005 notes that Brazil "continues to improve its counterterrorism capabilities." The United States is working with Brazilian officials to combat money laundering and arms trafficking. These efforts include increasing penalties for terrorist financing, particularly in the Tri-Border Area (TBA) of Brazil, Paraguay, and Argentina, and helping Brazilian law enforcement officials set up special units to investigate and prosecute a variety of financial crimes.<sup>35</sup> In December 2006, a U.S. Treasury Department report asserted that terrorist financing is still taking place in the TBA and initiated measures to choke off the assets of two companies and nine individuals in the region that it says are funding Hezbollah. Brazil, along with Argentina and Paraguay, reacted angrily to the report, stating that it "does not provide any new elements ... to affirm the existence of terrorist activities in the region, including the financing of terrorism."<sup>36</sup>

## Energy Security

During the 109<sup>th</sup> Congress, there was significant congressional interest in issues related to energy security. On March 2, 2006, the House International Relations Committee held a subcommittee hearing on energy security in the Western Hemisphere. On June 22, 2006, the Senate Foreign Relations Committee held a full committee hearing on the same topic. Brazil was mentioned at both hearings as a country that has successfully reduced its reliance on foreign oil by using alternative energies. Brazil has also recently attained the ability to produce large amounts of enriched uranium as part of its nuclear energy program.

**Ethanol Production.** In the past few years, as oil and gas prices have risen, there has been increasing attention in the United States on the importance of decreasing dependence on foreign oil. Brazil stands out as an example of a country that has become a net exporter of energy, partially by increasing its use and production of alternative energy sources, including ethanol. Brazil is the world's largest consumer and producer of ethanol from sugarcane. Its sugar-based ethanol is considered more efficient than U.S. corn-based derivatives.

Brazil's ethanol program began in 1975 but did not become competitive with gasoline until very recently. For decades, before ethanol became competitive with gasoline, the Brazilian government spent billions of dollars on subsidies and tax incentives to keep the struggling ethanol industry afloat. Now, ethanol supplies some 40% of the motor fuel used in Brazil and is extremely competitive with gasoline.

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<sup>35</sup> For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

<sup>36</sup> "Treasury Targets Hezbollah Fundraising Network in the Tri-Border Region," December 6, 2006, [<http://www.ustreas.gov/press/releases/hp190.htm>]; "Brazil: America's Triple Border Area Under Constant Watch," *Dow Jones Commodity Service*, February 8, 2007.

Ethanol use has accelerated since 2003, when automakers introduced “flex fuel” motors in Brazil designed to run on ethanol, gasoline, or a mixture of the two. In 2006, flex-fuel vehicles represented more than 78% of new cars sold in Brazil.<sup>37</sup>

Brazil’s experience with ethanol has not been without its share of problems, however. For instance, Brazil has at times had to import large amounts of ethanol when its sugarcane crop has been damaged by drought or simply fallen short of rising demand. In addition, the expansion of sugarcane production has occurred in areas previously used for cattle ranching and accompanying meat production, another important Brazilian export. Finally, human rights groups argue that the increasing demand for sugarcane has put undo pressure on the peasants forced to harvest the sugar under extremely difficult working conditions.<sup>38</sup>

Fuel ethanol consumption in the United States has grown significantly in the past several years, particularly since the establishment of renewable fuel standards in the Energy Policy Act of 2005 (P.L. 109-58). This standard requires U.S. gasoline to contain a minimum amount of renewable fuel, including ethanol. Many observers predict that the United States will have to increase its imports of foreign ethanol this year as U.S. corn-based ethanol producers are unable to keep up with increasing demand.<sup>39</sup>

The United States currently allows duty-free access on sugar-based ethanol imports from many countries through the Caribbean Basin Initiative, Central American Free Trade Agreement, and the Andean Trade Preferences Act, among others.<sup>40</sup> Some Brazilian ethanol is processed at plants in the Caribbean for duty-free entry into the United States, but exports arriving directly from Brazil are currently subject to a 54-cent-per-gallon tax, plus a 2.5% tariff.

In the 109<sup>th</sup> Congress, legislation was introduced that would have eliminated these two taxes on foreign ethanol: H.R. 5170 (Shadegg) and S. 2760 (Feinstein), the Ethanol Tax Relief Act of 2006. However, in December 2006, Congress voted to extend the taxes on foreign oil through 2009.

**Brazil-U.S. Energy Cooperation.** Brazilian and U.S. officials are currently formulating a new energy partnership to promote greater ethanol cooperation, production, and use throughout Latin America. The agreement reportedly involves technology-sharing between the United States and Brazil, and with other countries; joint ethanol initiatives; and efforts to develop common ethanol standards throughout the region. It may focus on developing ethanol production in sugar cane-producing countries like Guatemala, Jamaica, and Honduras. If an agreement is reached, Brazil

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<sup>37</sup> See David Sandalow, “Ethanol: Lessons from Brazil,” *Brookings Institution*, May 2006; “Brazil: Racing Cars,” *EIU - Business Latin America*, January 22, 2007.

<sup>38</sup> “With Big Boost From Sugar Cane, Brazil is Satisfying Its Fuel Needs,” *New York Times*, April 10, 2006.

<sup>39</sup> “Commodities Corner: The Rush for Ethanol,” *Barron’s*, May 1, 2006.

<sup>40</sup> For more information, see CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative*, by Brent D. Yacobucci.

stands to further its goal of developing ethanol into a global traded commodity, while the United States would benefit from having more producers in the region. In addition to these economic benefits, some analysts think an ethanol partnership with Brazil could help improve the U.S. image in Latin America and lessen the influence of oil-rich Hugo Chávez of Venezuela.<sup>41</sup>

**Nuclear Energy.** Between World War II and the mid-1980s, Brazil sought to develop nuclear weapons as it competed with Argentina for political and military dominance of the Southern Cone. In 1991, Brazil and Argentina reached an agreement to use nuclear energy for peaceful purposes only, although one scientist has recently asserted that the Brazilian military continued nuclear weapons efforts into the early 1990s.<sup>42</sup> Brazil joined the Nuclear Nonproliferation Treaty (NPT) in 1998 and since then has participated in several multilateral nonproliferation regimes, including the Missile Technology Control Regime and the Nuclear Suppliers Group (NSG). It is also a party to the Treaty of Tlatelolco, which establishes Latin America as a nuclear-weapon-free zone. Brazil chaired the May 2006 NSG plenary at which the United States tried to convince other NSG members to adopt an exception to the NSG guidelines to allow increased U.S.-Indian nuclear cooperation. In September 2006, Brazil and South Africa publicly supported India's quest to develop nuclear energy for civil uses.<sup>43</sup>

Despite its nonproliferation credentials, some international observers were concerned when Brazil commissioned a uranium enrichment plant in 2004 to be located at the Resende nuclear facility outside Rio de Janeiro. Uranium enrichment can be used for peaceful purposes (such as fuel for nuclear power plants) or for military purposes (nuclear weapons). In 2005, Brazilian officials refused to give International Atomic Energy Agency (IAEA) inspectors full access to the centrifuge plant, citing security concerns and proprietary aspects of the country's nuclear technology. Negotiations between Brazil and the IAEA ended in October 2005 when the Bush Administration lent its support to Brazil by asserting that limited inspections should be enough for Brazil to comply with its international obligations.<sup>44</sup>

Brazil is now the ninth country in the world capable of enriching uranium to generate energy. Brazil's reluctance to allow international inspectors to fully inspect the Resende facility has caused some observers to wonder whether Brazil's "new enrichment capability ... suggests South America's biggest country may be rethinking

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<sup>41</sup> Andres Oppenheimer, "Some Success Predicted in U.S. Courting of Brazil," *Miami Herald*, February 22, 2007; Monte Reel, "U.S. Seeks Partnership with Brazil on Ethanol; Countering Oil-Rich Venezuela is Part of Aim," *Washington Post*, February 8, 2007; "U.S.-Brazil Ethanol Diplomacy Seen Aiding U.S. Influence in Latin America," *Dow Jones Commodities Service*, February 9, 2007.

<sup>42</sup> "Brazil Nearly Built Bomb in 1990s, Scientist Says," *Associated Press*, August 30, 2005.

<sup>43</sup> "Brazil, South Africa Boost India's Quest for Civilian Energy," *Organization of Asia-Pacific News Agencies*, September 14, 2006.

<sup>44</sup> "New Round of Nuclear Enrichment Scare Stories," *Latin American Weekly Report*, February 12, 2006.

its commitment to non-proliferation.”<sup>45</sup> Some observers have called for Brazil to abandon its uranium enrichment plans in order to counter such concerns. The Bush Administration, however, considers Brazil to have a fully operational nuclear enrichment capability and should not be required to abandon its uranium enrichment projects.<sup>46</sup> Brazilian officials have rejected the notion that Brazil should be treated like Iran and prohibited from owning sensitive nuclear technology.

## Trade Issues

Trade issues are central to the bilateral relationship between Brazil and the United States, with both countries being heavily involved in subregional, regional, and global trade talks. Brazil has sought to strengthen Mercosul and to establish free trade agreements with most of the countries in South America, while also pursuing efforts to negotiate a Mercosul-European Union free trade agreement and to advance the global trade talks through the Doha Development Round. The United States has been actively involved in the Doha negotiations and has pressed for action on the region-wide Free Trade Agreement of the Americas (FTAA), while simultaneously undertaking a series of bilateral or subregional agreements with many hemispheric countries.

**World Trade Organization (WTO) Negotiations.**<sup>47</sup> The WTO Doha round talks were revived in 2004 after stalling in September 2003 in Cancun, Mexico, when Brazil led the G-20 group of developing countries that insisted that developed countries agree to reduce and eventually eliminate agricultural subsidies as part of any settlement. In late July 2004, WTO members agreed on the framework for a possible Doha round agreement, and negotiators worked throughout the year to achieve preliminary agreements by the Sixth WTO Ministerial Conference in mid-December 2005 in Hong Kong. For most observers, the Hong Kong Conference produced a mixed bag with modest results. In a result that was disappointing to Brazil, the ministers, bowing to the demands of the European Union, delayed the elimination of agricultural export subsidies until 2013 (not 2010), although subsidies for cotton were to be eliminated by 2006. In a result that was disappointing to the United States, formulas for reducing tariff barriers in the manufactured goods and service sectors were largely postponed.<sup>48</sup>

Deadlines were established in Hong Kong for concluding negotiations by the end of 2006, but the talks were suspended indefinitely in July 2006 after key negotiating groups failed to break a deadlock on agricultural tariffs and subsidies.

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<sup>45</sup> “Brazil’s Enrichment Program Overshadowed by Iran’s: Could Produce Nuclear Weapons,” *Montreal Gazette*, April 24, 2006.

<sup>46</sup> Bernard Aronson, “Brazil’s Chance to Lead on Nuclear Containment,” *Wall Street Journal*, March 18, 2005; Sharon Squassoni and David Fite, “Brazil as Litmus Test: Resende and Restrictions on Uranium Enrichment,” *Arms Control Today*, October 2005.

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

<sup>48</sup> See “WTO Ministerial Agrees on Setting Course for Final Stage of Talks; Some Disappointed,” *International Trade Reporter*, December 22, 2005.

The EU blamed the United States for not improving its offer of domestic support, while the United States responded that no new offers were put forward by the EU or the G-20 to make an improved offer possible. Because of the negotiating stalemate, it is considered unlikely that any agreement can be reached in time for consideration before U.S. trade promotion authority (TPA) expires on July 1, 2007.

**Free Trade Area of the Americas (FTAA).** In 1994, 34 countries in the Western Hemisphere announced a plan for creating a Free Trade Area of the Americas (FTAA) at the first Summit of the Americas. Twelve years later, the FTAA has yet to be established, and negotiations for its creation have been put off indefinitely, primarily due to differences of opinion between the United States and Brazil, co-chairs of the FTAA Trade Negotiation Committee.<sup>49</sup>

Brazil asserts that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties, while the United States emphasizes investment and intellectual property rights and argues that agricultural subsidy issues should be resolved in the Doha round of WTO talks. Disagreements on the terms of the FTAA came to a head in the November 2003 Ministerial Meeting in Miami, Florida, where the parties finally agreed on a formula dubbed by some an “FTAA light.” Under the formula, all of the countries would agree to a set of core obligations, while countries which favored a more ambitious agreement would negotiate plurilateral agreements. When the Trade Negotiations Committee (TNC) met in Puebla, Mexico, in early February 2004, the delegates were unable to agree on the FTAA common obligations, and continuing disagreements between the co-chairs, and involvement in other negotiations have prevented further meetings. A U.S. effort, in early November 2005 at the fourth Summit of the Americas in Mar del Plata, Argentina, to set a date for new FTAA negotiations was resisted by Venezuela and Mercosul countries, who argued that such talks should be put off until progress is made on agricultural subsidy issues in the global WTO Doha round talks.

**Trade Disputes.** Brazil won a WTO dispute settlement case against U.S. cotton subsidies in September 2004, which the United States appealed, but Brazil’s position was reaffirmed by the WTO appellate body in March 2005. In keeping with the requirement that the United States modify its policies or negotiate a mutually satisfactory settlement with Brazil, the Bush Administration in early July 2005 asked Congress to modify the cotton subsidy program and Brazil agreed to temporarily suspend retaliatory action.<sup>50</sup>

## Human Rights

The U.S. State Department’s Country Report on Human Rights on Brazil covering 2005 states that while “the federal government generally respected human

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<sup>49</sup> For more information, see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by J.F. Hornbeck.

<sup>50</sup> See “USDA Calls for Repeal of Cotton Subsidy to Achieve WTO Compliance,” *Inside U.S. Trade*, July 8, 2005. For more information, see CRS Report RL32571, *Background on the U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

rights of its citizens ... there continued to be numerous, serious abuses, and the record of several state [and municipal] governments was poor.” Three human rights issues of particular concern include crime and human rights abuses by police in Brazil, race and discrimination, and trafficking in persons.

**Violent Crime and Human Rights Abuses by Police.** Most observers agree that the related problems of urban crime, drugs, and violence, on the one hand, and corruption and brutality in law enforcement and prisons, on the other, are threatening citizens’ security in Brazil. Five Brazilian cities are among the fifteen cities in Latin America, the world’s most violent region, with the highest murder rates.<sup>51</sup> Crime is most rampant in the urban shanty towns (*favelas*) in Rio de Janeiro and São Paulo. In addition to rising crime rates, human rights groups have identified extrajudicial killings by police and prison authorities as Brazil’s most pressing human rights problem.<sup>52</sup> Prison conditions range from “poor to extremely harsh and life threatening,” and the countrywide prison system, which housed more than 361,000 inmates in 2005, had an accommodation deficit of some 90,360.<sup>53</sup>

The current weaknesses in Brazil’s criminal justice system have become dramatically apparent in the past year as gangs have launched violent attacks that have destabilized the cities of São Paulo and Rio de Janeiro. In mid-May 2006, street combat and rioting organized by a prison-based gang network, the First Capital Command (PCC), paralyzed the city of São Paulo for several days. Formed in 1993 to protest the country’s poor prison conditions, the PCC now has at least 6,000 dues-paying members and reportedly exerts control over more than 140,000 prisoners in the São Paulo prison system.<sup>54</sup> Officially, the violent gang attacks, which were followed by police reprisals, resulted in at least 186 deaths. Although state officials have denied that negotiations occurred, Brazilian press accounts reported that the violence did not end until a high-level truce was reached between state officials and gang leaders. The PCC launched further attacks in July and August 2006, which resulted in 19 deaths. Brazilian police have been criticized for the brutal manner in which they responded to the gang violence.<sup>55</sup>

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<sup>51</sup> William C. Prillaman, “Crime, Democracy, and Development in Latin America,” *Center for Strategic and International Studies*, June 2003.

<sup>52</sup> Brazilian authorities report that, partially in response to violent gang attacks, São Paulo state police killed 533 alleged criminals in 2006 compared to 300 in 2005. See “Police Killings of Suspects Up in Brazil,” *Associated Press*, February 1, 2007. President Lula has taken some steps to combat police brutality in Brazil.

<sup>53</sup> U.S. Department of State, *Country Reports on Human Rights Practices 2005: Brazil*, February 2006.

<sup>54</sup> Stephen Hanson, “Brazil’s Powerful Prison Gang,” *Council on Foreign Relations*, September 26, 2006.

<sup>55</sup> “Brazil: Battle of São Paulo Leaves a Disquieting Balance,” *Latin American Weekly Report*, May 23, 2006; “Police are Criticized in Wave of Gang Violence in Brazil,” *New York Times*, May 30, 2006; “Attacks in São Paulo Prompt Fears of Renewed Gang Offensive,” *EFE*, February 7, 2007.

Violence in Rio de Janeiro has traditionally been linked to turf wars being waged between rival drug gangs for control of the city's drug industry or to clashes between drug gangs and police officials. In late December 2006, drug gangs torched buses and attacked police stations in Rio de Janeiro, leaving some 25 dead. Recent clashes have also involved vigilante militias, composed of off-duty police and prison guards, which are now charging citizens to "protect" them from the drug gangs. Rio officials have identified the militias as criminal groups but have thus far been unable to contain them.<sup>56</sup>

Many analysts have placed the blame for the recent attacks on Brazilian politicians at all levels of government, who they say have failed to devote the resources and political will necessary to confront the country's serious public security problems. In particular, they maintain that there has been a lack of coordination between federal, state, and local officials, and that political calculations have often prevented state governments, which have been largely ineffective in responding to the recent violence, from seeking much-needed assistance from the federal government. Most Brazilians hope that the recent attacks in Rio will spur the country's politicians to address delinquency quickly and effectively. President Lula did not launch any major anti-crime initiatives during his first term but has pledged to address crime in a firm manner during his second mandate, while continuing to tackle poverty and drugs, root causes of violence. He has recently increased spending on public security and sent federal troops to help secure Rio de Janeiro. In response to the May riots in São Paulo, the Brazilian Senate passed 11 emergency measures to combat violent crime and improve prison security, some of which are now being considered under fast-track procedures by Brazil's Chamber of Deputies.<sup>57</sup>

**Race and Discrimination.**<sup>58</sup> People of African descent in Brazil, also known as Afro-Brazilians, represent 45% of the country's population, but constitute 64% of the poor and 69% of the extreme poor.<sup>59</sup> During the Cardoso administration, the Brazilian government began to collect better official statistics on Afro-Brazilians. These statistics found significant education, health, and wage disparities between Afro-Brazilians and Brazil's general population. Successive State Department Human Rights Reports covering Brazil in the late 1990s reported frequent discrimination against Afro-Brazilians, including abuse by police officials, and a limited access to justice. These findings and other evidence challenged the notion

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<sup>56</sup> "Troops Alone Will Not Solve State of Violence," *Latin American Brazil and Southern Cone Report*, January 2007; "Brazilian Slums Face a New Problem: Vigilante Militias," *Christian Science Monitor*, February 8, 2007.

<sup>57</sup> "Troops Alone Will Not Solve State of Violence," *Latin American Brazil and Southern Cone Report*, January 2007; "Brazil: Child's Violent Death Spurs Congress Into Action," *Latin News Weekly Report*, February 15, 2007.

<sup>58</sup> For more information, see CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando.

<sup>59</sup> Ricard Henriques, "Desigualdade racial no Brasil," Brasília: Instituto de Pesquisa Econômica Aplicada (IPEA), 2001

that Brazil was a “racial democracy,”<sup>60</sup> and confirmed the perception that specific public policies were needed to improve the socioeconomic status of Afro-Brazilians.

Brazil now has the most extensive anti-discrimination legislation geared towards Afro-descendants of any country in Latin America. In 2001, Brazil became the first Latin American country to endorse quotas in order to increase minority representation in government service. Since 2002, several state universities in Brazil have enacted quotas setting aside admission slots for black students. Although most Brazilians favor government programs to combat social exclusion, they disagree as to whether the beneficiaries of affirmative action programs should be selected on the basis of race or income.<sup>61</sup> In 2003, Brazil became the first country in the world to establish a Special Secretariat with a ministerial rank to manage Racial Equity Promotion Policies. Afro-Brazilian activists, while acknowledging recent government efforts on behalf of Afro-descendants, have noted that most universities have preferred not to implement quota systems, and that the Special Secretariat lacks the funding, staff, and clout necessary to advance its initiatives.<sup>62</sup> Despite these limitations, Brazil has taken a leadership role in advancing issues of race and discrimination within the Organization of American States, where it is leading the drafting of an Inter-American Convention for the Prevention of Racism and All Forms of Discrimination and Intolerance.

**Trafficking in Persons.**<sup>63</sup> Brazil is a source, transit, and destination country for people, especially women and children, trafficked for forced labor or sexual exploitation. In the State Department’s *Trafficking in Persons (TIP) report, June 2006*, Brazil was listed as a Tier 2 Watch List country. In the report, the Brazilian government was cited for making only limited progress in bringing traffickers to justice and for failing to apply effective penalties for those who exploit forced labor. In its 2006 Interim Trafficking Assessment to Congress, the State Department says that Brazil has made “minimal progress” in addressing trafficking since the release of the 2006 report. It urges the Brazilian government to pass comprehensive anti-trafficking legislation and to arrest and convict more traffickers.<sup>64</sup>

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<sup>60</sup> Racial democracy attributes the different conditions under which blacks and whites or mestizos live in Latin America to class differences, not racial discrimination. See Robert J. Cottrol, “The Long Lingering Shadow,” *Tulane Law Review*, 2001.

<sup>61</sup> Livio Sansone, “Anti-Racism in Brazil,” *NACLA Report on the Americas*, September 1, 2004.

<sup>62</sup> Dayanne Mikevis and Matthew Flynn, “Brazil’s Civil Rights Activists Achieving Overdue Policy Reform,” *Citizen Action in the Americas*, No. 17, April 2005.

<sup>63</sup> For more information, see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare M. Ribando.

<sup>64</sup> U.S. Department of State, *Trafficking in Persons Report, 2006*, June 5, 2006, [<http://www.state.gov/g/tip/rls/tiprpt/2006/65983.htm>]. Trafficking in Persons Interim Assessment, [<http://www.state.gov/g/tip/rls/rpt/78948.htm>].



In Brazil, more than 25,000 people have been recruited from small towns in the northeast to labor in the country's agribusiness industry.<sup>65</sup> Since 2003, the Brazilian government has adopted stronger penalties to punish employers caught using slave labor. It has strengthened the Special Mobile Inspection Group of inspectors within the labor ministry, which has reportedly freed some 20,000 individuals from slavery during the past decade. In 2005, the ILO cited Brazil as a positive example of a country that has made a concerted effort to combat forced labor. Despite its efforts, a recent investigation alleges that some 1,000 charcoal-making camps in the Brazilian Amazon are using slave labor to produce pig iron, a key ingredient of steel.<sup>66</sup>

Brazil has worked closely with U.S. officials and representatives from several different international organizations to improve its anti-trafficking programs. In July 2004, President Bush announced that Brazil was one of eight countries selected to receive \$50 million in strategic anti-trafficking-in-persons assistance. Some \$8.2 million in funds have been approved by the Senior Policy Operating Group (SPOG) on trafficking for Brazil. These funds support programs to prevent labor trafficking in the Southern Amazon; shelters for sex tourism victims in Rio de Janeiro, Recife, and São Paulo; reintegration and border shelters in the Tri-border region (Brazil, Paraguay, and Argentina); and strengthening mobile law-enforcement teams to fight forced labor in the interior, as well as training judges and prosecutors. The funds are supporting public awareness campaigns to deter American and other foreign travelers from engaging in child sex tourism in Brazil.

In FY2005, U.S. support helped the Brazilian government provide a variety of legal and social services to more than 1,000 trafficking victims. In addition, more than 6,530 government and NGO representatives received training on how to improve assistance to trafficking victims. Finally, Brazil, with USAID support, revised its penal code to make internal and transborder trafficking for commercial sexual exploitation federal crimes with similar penalties, and eliminated language that made the previous law applicable strictly to cases involving female victims. The legislative changes did not include provisions addressing trafficking for forced labor, which is also a major problem in Brazil.

## **HIV/AIDS**

Successive governments in Brazil have made the fight against the spread of HIV/AIDS a national priority. In 1985, Brazil's national AIDS program began within the context of the country's transition to democracy as a result of activism from Brazilian civil society. Initially focused on disease prevention, Brazil's HIV/AIDS program expanded to providing antiretroviral (ART) drugs on a limited basis by 1991, and then to all people living with the disease by 1996. Currently some 172,000 Brazilians have access to free generic versions of ART drugs, some of which are locally produced and financed by the Brazilian government. The incidence of HIV/AIDS in Brazil has stabilized since 1997, and universal free access to ART has

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<sup>65</sup> TIP Report, 2006, [<http://www.state.gov/g/tip/rls/tiprpt/2006/>].

<sup>66</sup> "A Global Alliance Against Forced Labor," ILO, 2005; Michael Smith and David Voreacos, "The Secret World of Modern Slavery," *Bloomberg Markets*, December 2006.

increased average survival times from 18 months for those diagnosed in 1995, to 58 months for those diagnosed in 1996.<sup>67</sup> HIV prevalence has been stable at .5% for the general population in Brazil since 2000, so most government prevention efforts are now targeted at high-risk groups where prevalence rates are still above 5%.

Brazil's decision to develop generic ART drugs to treat HIV/AIDS under the compulsory licensing provision of its patent law led to a subsequent 80% drop in the cost of treatment there. That decision brought Brazil into conflict with the United States and the international pharmaceutical industry. In May 2001, the United States submitted a complaint to the WTO, which was later withdrawn, that Brazil's practices violated the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement and prevented companies from developing new products there. While the pharmaceutical industry argued that TRIPS was an essential tool to protect intellectual property rights, developing countries (like Brazil) countered that TRIPS inhibited their ability to fight public health emergencies in a cost-effective manner. In August 2003, a WTO decision temporarily waived part of the TRIPS rules to allow the export of generic drugs to countries confronting a grave public health challenge (such as HIV/AIDS, tuberculosis, or malaria). That temporary waiver became permanent in late 2005.<sup>68</sup>

Brazil currently manufactures older ART drugs both for domestic consumption and for export to several African countries but has to import newer medicines. According to Brazil's ministry of health, tough negotiations with pharmaceutical companies have resulted in \$1.1 billion savings for the country's HIV/AIDS program. Despite that savings, Brazil's ART program costs have escalated in recent years, prompting some advocates to urge the government to issue compulsory licenses that would enable Brazil to make generic versions of new, brand name drugs without the patent holder's consent. The Lula government has thus far resisted licensing, reportedly fearing reprisals from the pharmaceutical companies and retaliatory trade sanctions from the U.S. government.<sup>69</sup>

Brazil and the United States have disagreed as to whether prostitutes should be enlisted to help combat the spread of HIV/AIDS. In 2003, Congress passed an amendment to H.R. 1298 (P.L. 108-25), which authorizes the President's Emergency Plan for AIDS Relief (PEPFAR), prohibiting U.S. funds from being distributed to any group or organization that does not have a policy "explicitly opposing prostitution and sex trafficking." Brazil has rejected U.S. support for its HIV/AIDS programs because it is opposed to the new restrictions. That decision cost Brazil some \$48 million in USAID funding for HIV/AIDS programs.<sup>70</sup>

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<sup>67</sup> Daniel R. Hogan and Joshua A. Salomon, "Prevention and Treatment of HIV/AIDS in Resource-Limited Settings," *World Health Organization*, February 2005.

<sup>68</sup> Mary Anastasia O'Grady, *Wall Street Journal*, December 16, 2005.

<sup>69</sup> "Drug Costs Imperil AIDS Fight," *Boston Globe*, January 3, 2007; "World Looking to Brazil for Answers," *Toronto Star*, August 5, 2006.

<sup>70</sup> Monte Reel, "Where Prostitutes Also Fight AIDS," *Washington Post*, March 2, 2006.

## Environmental Concerns

**Amazon Deforestation.** The Amazon Basin contains over half of the world's remaining tropical rainforests and is the most biodiverse tract of tropical rainforest in the world. Some 22% of the world's known plant species exist in Brazil and 20% of the world's fresh water lies in the Amazon basin. The Amazon is also thought to be home to one third of all species in the world, including some 2.5 million types of insects, and 2,000 types of birds and mammals. Further, the Amazon rainforest is a sink for global carbon dioxide, and is considered by many to be an important asset in moderating climate change. Proper management of Brazil's portion of the Amazon rainforest holds global significance.

Throughout the last forty years, the Brazilian Amazon has been increasingly deforested for development that includes roads, settlements, logging, subsistence and commercial agriculture, as well as cattle ranching. In 1960, the Amazon was largely undeveloped, but today approximately 15%-20% of the rainforest has been deforested. Deforestation threatens the biodiversity of the Amazon region and is a concern for climate change. In the 1980s, some predicted that deforestation would decline if the Brazilian government stopped providing tax incentives and credit subsidies to settlers and agricultural producers. Those predictions have not borne out, however, as the complex and often interrelated causes of deforestation have multiplied rather than decreased.<sup>71</sup> Between 1990 and 2000, Brazil lost an area of rainforest twice the size of Portugal. Deforestation rates, which have been fueled by increases in cattle ranching, soybean farming, and road building, spiked in 2002 and 2004 (reaching the second-highest level ever) before declining by 32% in 2005 and another 11% in 2006.<sup>72</sup>

The Brazilian government attributes the recent decline in the deforestation rate to its creation of new conservation areas and stricter enforcement of environmental regulations. The Lula government created some 7 million hectares of new conservation reserves in 2004 and 2005. It also launched a special operation to combat deforestation and illegal logging that resulted in the arrest of more than 100 people between June 2005 and January 2006. In March 2006, President Lula signed the Public Forest Management Law, which is set to take effect this year, that aims to decrease illegal logging by allowing companies access to 3% of the Amazon on the condition that they carry out sustainable operations. Although some environmental groups have praised this progress, others fear that it may be too little too late.

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<sup>71</sup> David Kaimowitz, "Amazon Deforestation Revisited," *Latin American Research Review*, 2002: 37, 2.

<sup>72</sup> Some have suggested that access to pristine tracts of rainforests through roads is the primary driver of deforestation in the Amazon. Regional roads constructed by the government, as well as local roads created by logging operations, provide access to forested areas. Using these roads, farmers clear remaining forests and practice slash and burn agriculture until the land loses much of its soil fertility and it becomes more profitable to move to other forested tracts rather than resuscitate their existing lands. After agriculture, pastures grasses are generally planted and cattle are raised. Eventually, cattle grazing and cyclical burning (either accidental or induced) will alter the ecosystem sufficiently that forests cannot regenerate.

Skeptics assert that the declining deforestation rates recorded for the past two years did not occur because of any government initiatives but because declining soybean prices coupled with the strengthening of Brazil's currency made it less profitable to clear the forests.<sup>73</sup>

In order to combat further deforestation, most observers agree that cooperative efforts will have to be made between the Brazilian government, private companies, landowners, and the international community (including the United States). These efforts might include funding to pay farmers not to exploit the environment, conservation projects, and environmental certification of commodities such as beef, timber, and soybeans. Coordinated efforts could significantly reduce carbon emissions and the loss of Amazon diversity that is otherwise likely to occur.<sup>74</sup>

USAID environment programs directly support the U.S.-Brazil Common Agenda for the Environment. USAID environment programs seek to promote proper land-use trends over large geographic areas while encouraging environmentally-friendly income generation activities for the rural poor. The FY2005 allocation for USAID environmental programs in Brazil was \$6.1 million, and the FY2006 was \$5.1 million. USAID also initiated the Amazon Basin Conservation Initiative in FY2006. From FY2006-FY2011, USAID plans to make an initial investment of US \$50 million to support community groups, governments, and public and private organizations working in Brazil and other countries in the Amazon Basin in their efforts to conserve the Amazon's globally important biodiversity.<sup>75</sup>

**Land Conflicts.** A related development challenge for Brazil that has caught the attention of both environmentalists and human rights groups in the United States has been how to allow the country's agribusinesses to expand while simultaneously protecting the environment and providing land to millions of landless peasants. In Brazil, 1% of the population controls 45% of the farmland. While close to half of Brazil's fertile land is used for cattle ranching, nearly one third lies uncultivated.<sup>76</sup> In the 1980s, landless rural workers in the south of Brazil began to organize in order to demand land redistribution. By 2004, the most powerful landless organization, the Landless Workers' Movement (MST), claimed some 1.5 million affiliates nationwide and was capable of skillfully organizing mass demonstrations and land invasions to pressure the Brazilian government to fulfill its promises of land distribution. As the MST became more mobilized throughout the 1990s, land disputes between loggers, ranchers, and peasants increased, and dealing with land reform and land invasions became a major challenge for the Cardoso government.<sup>77</sup>

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<sup>73</sup> "Brazil Gambles on Amazon Logging," *Chicago Tribune*, January 15, 2007.

<sup>74</sup> Soares-Filho et al., "Modelling Conservation in the Amazon Basin," *Nature*, March 2006.

<sup>75</sup> See [[http://www.usaid.gov/locations/latin\\_america\\_caribbean/environment/abci.html](http://www.usaid.gov/locations/latin_america_caribbean/environment/abci.html)] for more information, accessed February 20, 2007.

<sup>76</sup> "Special Report: Land Report Dilemma," *Latin America Regional Report*, December 21, 2004.

<sup>77</sup> Miguel Carter, "The Landless Workers' Movement (MST) and Democracy in Brazil," *Center for Brazilian Studies, University of Oxford*, 2005.

In 2002, partially because of overlapping membership and good relations at the local level between MST and PT leaders, landless leaders backed the Lula da Silva presidential campaign in hopes that he would pursue more effective agrarian reform policies than President Cardoso did. In fact, during his first two years in office, President Lula da Silva spent 24% less on land reform than the Cardoso administration had in the previous two years. The Lula government has recently reported that it resettled 381,419 families between 2003 and 2006, just short of its 400,000 target, but landless associations have disputed that figure. Moreover, the government has acknowledged that the number of peasants waiting in temporary camps to be resettled has increased from 60,000 in 2003 to 171,000 in 2006. Resettlements may have contributed to an increasing number of land conflicts between peasants, farmers, and land speculators, which peaked in 2005 when 1,900 land conflicts occurred. Some 38 people were thought to be murdered in 2005 as a result of struggles over land.<sup>78</sup>

According to the Catholic Church's Pastoral Land Commission (PLC), Pará, a rural state in the isolated Amazon region, has long been at the epicenter of land disputes between peasants, farmers, and land speculators. Some 40% of the 1,237 land-related killings in Brazil between 1985 and 2001 took place there. The February 2005 murder in Pará of U.S. missionary and landless activist, Dorothy Stang, brought increasing national and international attention to Brazil's land distribution problem.<sup>79</sup> The conviction of three suspects in connection with Sister Stang's death has led some observers to hope that more perpetrators of land-related crimes in Pará may finally be brought to justice. Some 750 land activists have died there in the last 30 years, but only nine killers have been convicted for those deaths.<sup>80</sup> Some assert that Sister Stang's death prompted the Brazilian government to enact several aggressive measures that resulted in recent reductions in Amazon deforestation in Brazil. International environmental groups and human rights organizations have increased scrutiny on the Lula government's handling of the related problems of promoting sustainable development in the Amazon and providing land to the country's thousands of landless peasants.

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<sup>78</sup> "Brazilians Wonder: Where's the Reform?" *Christian Science Monitor*, March 22, 2006; "Brazil: Official Statistics at Odds with Landless Figures," *Latinnews Daily*, February 1, 2007; "Waiting for Land on the Fringes," *Fort-Worth Star-Telegram*, December 10, 2006; "Rural Violence at Record Levels in Brazil," *BBC Monitoring Americas*, April 20, 2006.

<sup>79</sup> "Brazil: A Nun's Murder Triggers Action Against Landgrabbers," *Latin News Weekly Report*, February 22, 2005; "Human Rights Violations in the Amazon: Conflict and Violence in the State of Pará," *Commissão Pastoral da Terra, Global Justice, and Terra de Direitos*, November 2005.

<sup>80</sup> "Third Man Jailed for U.S. Nun Death," *BBC News Online*, April 27, 2006.

Figure 1. Map of Brazil



Source: Map Resources. Adapted by CRS. (K.Yancey 11/28/05)