

U.S.-BRAZIL RELATIONS

HEARING
BEFORE THE
SUBCOMMITTEE ON
THE WESTERN HEMISPHERE
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS
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CONTENTS

	Page
WITNESSES	
Mr. Paulo Sotero, Director, Brazil Institute, Woodrow Wilson International Center for Scholars	8
Stanley Gacek, Esq., Associate Director of the International Department, AFL-CIO	13
Mr. Joel Velasco, Chief U.S. Representative, Sugar Cane Industry Association (UNICA)	25
Mr. Mark Smith, Managing Director for Western Hemisphere Affairs, U.S. Chamber of Commerce	30
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable Eliot L. Engel, a Representative in Congress from the State of New York, and Chairman, Subcommittee on the Western Hemisphere: Prepared statement	4
Mr. Paulo Sotero: Prepared statement	9
Stanley Gacek, Esq.: Prepared statement	15
Mr. Joel Velasco: Prepared statement	27
Mr. Mark Smith: Prepared statement	32
APPENDIX	
Mr. William Perry, President, William Perry & Associates: Statement for the record	45

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WEDNESDAY, SEPTEMBER 19, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:14 p.m. in room 2172, Rayburn House Office Building, Hon. Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. ENGEL. A quorum being present, this Subcommittee on the Western Hemisphere will come to order.

Friends, if you ask an average American what he or she knows about Brazil, you might hear, "That is where the Amazon is, right?" or, "I hope to go to Rio sometime," or, "The Girl from Ipanema," or the song "Brazil." That is understandable. For years, Brazil has flown below the radar screen in the United States. Unfortunately, we never paid much attention to what was happening in the largest country in South America.

Well, I am pleased to say that we are reaching the end of that period of ignorance and neglect, and that we in America are finally waking up not only to Brazil's importance, but to how natural this relationship between our two countries should be.

The countries with the warmest ties, and the deepest strategic dialogue with the United States, often embody a range of traits. These nations are democracies with market-based economies. They embrace freedom of religion, protection for minorities, and recognition and celebration of diversity among their populations. Brazil, it seems, meets every factor and embodies the values which the United States seeks in its closest friends.

Moreover, Brazil has the largest economy, population and land mass in South America, and physically borders every other country on the continent except Chile and Ecuador. It plays an important role in international organizations, has a large and growing economy, is a world leader in biofuels, and is expanding its outreach to countries around the world.

That is why I believe we are at the point of a strategic confluence of interests with Brazil. That is why Secretary of State Condoleezza Rice calls Brazil, and I quote her, "the regional leader and our global partner." These are words we reserve for only a few countries, those where the partnership makes the most sense, and Brazil is certainly one of those countries.

Is that to say that things are perfect in Brazil? Of course not. There are problems, and I am hoping we will talk about some of them at this hearing today. Brazil has faced challenges on forced

labor, the environment, poverty, crime and in other areas, but these are problems that Brazil is facing and taking steps to address.

Our presidents, Presidents of the United States and Brazil, those seemingly strange bedfellows, have strengthened the United States-Brazil partnership. I believe that we in Congress must continue to elevate our relationship with Brazil's legislative and executive branches. To this end, I am pleased to announce that I will be leading a congressional bipartisan delegation to Brazil later this year, and I invite my colleagues to join.

On March 9, the United States and Brazil, the world's two largest ethanol-producing countries, signed a memorandum of understanding to promote greater cooperation in ethanol and biofuels in the Western Hemisphere. Brazil is the right country with which to cooperate on biofuels. Decades of state investment have helped Brazil become the world's largest consumer and producer of ethanol from sugar cane. By the end of 2006, 80 percent of new cars in Brazil were flex-fuel, meaning that they can run on a mixture of ethanol and gasoline.

As a member of the Energy and Commerce Committee, I have spent a lot of time looking at ways to reduce our dependence on oil and have introduced an energy bill, along with Congressman Kingston, called the DRIVE Act, parts of which were included in the energy package that passed the House in August. I believe that we as Americans can learn a great deal from Brazil as we try to reduce our dependence on oil and diversify our energy resources.

Our bilateral partnership is establishing both countries as leaders in the energy field in the hemisphere. I am particularly pleased by joint United States-Brazilian efforts to provide technical assistance to build biofuel industries in third countries, including the Dominican Republic, Haiti, El Salvador, St. Kitts and Nevis. I just had a meeting in my office this morning with the President of the Dominican Republic, and he cited this as something of which he was very proud.

I very much hope that we expand our technical assistance throughout the hemisphere. I urge Presidents Bush and Lula to move a second wave to receive similar technical assistance.

Many argue for too long the U.S. has focused its agenda in the hemisphere on trade and drugs at the exclusion of other elements. The deepening of our energy cooperation with our friends in the hemisphere, particularly Brazil, is helping us develop a positive agenda that I hope will continue to grow in the coming years.

I want to quickly raise two United States policy concerns that I have vis-à-vis Brazil. I have been a vocal critic of what I see as insufficient amount of United States foreign assistance going to the Western Hemisphere. I am particularly concerned about the drastic reduction in United States assistance to Brazil in the President's fiscal year 2008 budget. From 2005 to 2007, our small USAID mission in Brasilia not only has made a major impact on a shoestring budget, but also has managed to leverage \$80 million in support from the private sector and the Brazilian Government. In fiscal year 2007, \$14 million in assistance to Brazil was handled through our USAID mission.

The President's fiscal year 2008 budget provides Brazil with a mere and paltry \$2 million. I am extremely concerned that our reduction in assistance to Brazil is intended to bring about an eventual closing of our USAID mission in Brasilia.

Last week Ranking Member Burton and I sent a letter, together, to acting director of Foreign Assistance Henrietta Fore expressing our concerns. While one of the largest economies in the developing world, Brazil is still home to 50 percent of the people in Latin America defined as poor, and there are 35 million people living in dire poverty in Brazil's north and northeast. I have met the Governor in my office last week of that region. At a time when we are enhancing our partnership with Brazil, closing our USAID mission in Brasilia would be a grave mistake.

On the trade front, the Doha Round of global trade talks realistically will not advance anytime soon. In the meantime, I hope that the United States and Brazil can find ways to enhance our trade partnership. The U.S. Generalized System of Preferences provides duty-free access for certain products from Brazil. Some of the access has been jeopardized by the revocation of the Competitive Needs Limits waivers for Brazil. H.R. 3427, introduced by Congressman Jim McDermott, provides a legislative fix that will enable Brazil to continue to fully benefit from a GSP program. I hope the McDermott legislation can be quickly enacted.

As someone who cares deeply about Haiti, I am particularly pleased by Brazil's leadership of a multinational U.N. Stabilization Mission in Haiti, called MINUSTAH. MINUSTAH has impressively integrated security and development in Haiti, and after a recent visit to Haiti, U.N. Secretary General Ban Ki-moon stated that MINUSTAH has helped the Haitian population, and that he would recommend that peacekeepers stay for at least another year. I agree, and I believe that all of us in the Americas owe a debt of gratitude to Brazil for its leadership in Haiti.

Finally, I want to focus on an issue that is close to my heart, combating forced labor, forced slave labor. In 2001, Senator Tom Harkin and I developed the Harkin-Engel Protocol to help combat forced labor, slave labor in the cocoa industry in West Africa. In Brazil, as in many countries throughout the world, there are concerns about forced labor.

Since becoming chairman of the Western Hemisphere Subcommittee, I have begun to take a closer look at the issue of forced slave labor in Brazil, particularly in the pig iron industry, but also more broadly. While more remains to be done, I have been pleased that since 2003, the Brazilian Government has created a blacklist of companies using forced labor and has adopted stronger penalties to punish employers caught using slave labor.

The government has strengthened a Special Mobile Inspection Group within the Labor Ministry, which has reportedly freed some 20,000 individuals from slavery over the past decade. In addition, the Citizens' Charcoal Institute was created by Brazilian steel companies to inspect charcoal producers in northern Brazil and eliminate forced labor in the pig iron production chain.

I believe that more resources should go to the Special Mobile Groups, and I would like to see more prosecutions related to forced labor in Brazil, but I would be remiss not to commend Brazil on

its leadership in combating forced labor and to offer my support to Brazil in its fight against forced labor.

[The prepared statement of Mr. Engel follows:]

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

Friends, if you ask an average American what he or she knows about Brazil, you might hear, “that’s where the Amazon is, right?” or “I hope to go to Rio sometime.” That’s understandable. For years, Brazil has flown below the radar in the United States. We never paid much attention to what was happening in the largest country in South America.

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The countries with the warmest ties and the deepest strategic dialogue with the United States often embody a range of traits. Those nations are democracies with market-based economies. They embrace freedom of religion, protection for minorities, and a recognition and celebration of diversity among their populations. Brazil, it seems, meets every factor and embodies the values which the United States seeks in its closest friends.

Moreover, Brazil has the largest economy, population, and land mass in South America and physically borders every other country on the continent except Chile and Ecuador. It plays an important role in international organizations, has a large and growing economy, is a world leader in biofuels, and is expanding its outreach to countries around the world.

That is why I believe we are at the point of a strategic confluence of interests with Brazil. And, that is why Secretary of State Condoleezza Rice calls Brazil “the regional leader and our global partner.” These are words we reserve for only a few countries—those where the partnership makes the most sense.

Is that to say that things are perfect in Brazil? Of course not. There are problems, and I’m hoping we’ll talk about some of them at this hearing today. Brazil has faced challenges on forced labor, the environment, poverty, crime, and in other areas. But, these are problems that Brazil is facing and taking steps to address.

Our presidents—though seemingly strange bedfellows—have strengthened the U.S.—Brazil partnership, and I believe that we in Congress must continue to elevate our relationship with Brazil’s legislative and executive branches. To this end, I am pleased to announce that I will be leading a bipartisan congressional delegation to Brazil in November and I invite my colleagues to join.

On March 9th, the U.S. and Brazil—the world’s two largest ethanol-producing countries—signed a Memorandum of Understanding (MOU) to promote greater cooperation on ethanol and biofuels in the Western Hemisphere. Brazil is the right country with which to cooperate on biofuels. Decades of state investment have helped Brazil become the world’s largest consumer and producer of ethanol from sugar cane. And by the end of 2006, 80% of new cars sales in Brazil were flex-fuel, meaning that they can run on a mixture of ethanol and gasoline. As a member of the Energy and Commerce Committee, I have spent a lot of time looking at ways to reduce our dependence on oil and have introduced an energy bill called the DRIVE Act—parts of which were included in the energy package that passed the House in August. I believe that we as Americans can learn a great deal from Brazil as we try to reduce our dependence on oil and diversify our energy resources.

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Many argue that for too long, the U.S. has focused its agenda in the hemisphere on “trade and drugs” at the exclusion of other elements. The deepening of our energy cooperation with our friends in the hemisphere—particularly Brazil—is helping us to develop a positive agenda that I hope will continue to grow in the coming years.

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While more remains to be done, I have been pleased that since 2003, the Brazilian government has created a black list of companies using forced labor and has adopted stronger penalties to punish employers caught using slave labor. The government has strengthened the Special Mobile Inspection Group within the Labor Ministry, which has reportedly freed some 20,000 individuals from slavery over the past decade. In addition, the Citizen's Charcoal Institute (ICC) was created by Brazilian steel companies to inspect charcoal producers in northern Brazil and eliminate forced labor in the pig iron production chain. I believe that more resources should go to the Special Mobile Groups, and I would like to see more prosecutions related to force labor in Brazil. But I would be remiss not to commend Brazil on its leadership in combating forced labor and to offer my support to Brazil in its fight against forced labor.

I am now pleased to introduce our distinguished witnesses who are testifying today. Paulo Sotero is the Director of the Brazil Institute at the Woodrow Wilson International Center for Scholars. For the previous seventeen years, Mr. Sotero was the Washington correspondent for *Estado de Sao Paulo*, a leading Brazilian newspaper.

Stan Gacek is the Associate Director of the International Department at the AFL-CIO and a longtime expert on Brazil's labor movement. Prior to joining the AFL-CIO, Mr. Gacek was Assistant General Counsel to the United Food and Commercial Workers International Union (UFCW).

Joel Velasco is Managing Director of Stonebridge International and manages the firm's Latin America practice. He previously served as a personal aide to former Vice President Al Gore and as a Special Assistant to the U.S. Ambassador to Brazil. He is here today as the Chief U.S. Representative of UNICA—Brazil's largest Sugar Cane Industry Association.

Finally, Mark Smith is the Managing Director for the Western Hemisphere at the U.S. Chamber of Commerce as well as the Executive Vice President of the Brazil—U.S. Business Council.

I want to close by noting that there is a cynical, old adage about Brazil that says, "Brazil is the land of the future, and always will be." Brazil's leadership at home, in the Americas and throughout the world is proving this statement to be false. I

truly believe that Brazil's time has come. As Subcommittee Chairman, I look forward to focusing intensively on Brazil—a vital partner and friend.

Thank you. I am pleased to call on Ranking Member Burton for his opening statement.

Mr. ENGEL. Let me ask if Congressman Burton would like to give an opening statement.

Mr. BURTON. Yes, Mr. Chairman, I would like to give a brief statement.

First of all, Brazil is a good friend of the United States. The biofuels arrangement we have with them I think is invaluable, and we should expand that. I don't know if anybody here is from State Department or not. Is there anybody here from the State Department?

I am very disappointed in the cuts in our foreign aid to Brazil. One of things that I think is extremely important for stability in the Western Hemisphere is to make sure that we do what we can to make sure that those economies are stable. Right now we have been cutting a lot of money from Brazil. Brazil, for instance, we cut it from \$14 million to \$2 million. I don't think that is going to be a terribly disastrous thing for Brazil, but it certainly was showing that the United States doesn't think that they are worthy of the support that we have been giving them in the past.

I think that is a mistake. The reason I think it is a mistake, and I would challenge the State Department to respond to what I am about to say, stability in Central and South America is absolutely essential. Right now in Venezuela, we have a man who is trying to push everything to the left. He is working with Fidel Castro. I am talking about President Chavez. He has helped a Communist leader become elected in Nicaragua. He helped a leftist government, Morales, in Bolivia. All of those things indicate to me that we need all the friends we can get in South and Central America, and we need to be extending the hand of friendship to them in every way possible. Cutting aid right now doesn't seem like the way we should be going.

I appreciate all of the things that Brazil has done. I appreciate the working relationship that we have had with President Lula, and I hope that the State Department—I hope somebody gets this message to them—I hope the State Department and the administration would agree that it is extremely important that we pay more attention to Central and South America than we have in the past.

Sure, we have problems in the Middle East. There is no question about that, and there are problems that are gargantuan as far as this country is concerned. But we have been ignoring Central and South America for a long, long time. I think the chairman and I agree on that. When I was chairman, we talked about it. Now that he is chairman, he understands it as well. He has always understood.

I think it is extremely important. This is our front yard. This is our back yard. If we don't pay attention to what is going on in Central and South America right now and extend the hand of friendship to all of those governments that we can, we are going to reap the whirlwind.

I agree with what you said, Mr. Chairman, about our relationship with Brazil, but this is part of a much bigger picture, in my opinion, and that is the stability in both Central and South America and how our relationship is with each one of those countries, and how it is going to portend the way the future is going to be down there.

I yield back the balance of my time.

Mr. ENGEL. Thank you, Mr. Burton.

Before I introduce our guests today, I want to close by noting that there is a cynical old adage about Brazil that says Brazil is the land of the future and always will be. Brazil's leadership at home in the Americas and throughout the world is proving this statement to be false. I truly believe that Brazil's time has come.

As subcommittee chairman, as I mentioned before, along with Mr. Burton, I look forward to focusing intensively with Brazil, a vital partner and friend.

Mr. Fortuño is here.

I am sorry, would you have an opening statement?

Mr. FORTUÑO. Mr. Chairman, very briefly, I just want to commend you for what you are doing regarding Brazil.

Actually there is another saying regarding Brazil, and that is it is a sleeping giant. Well, it is not sleeping at all actually. In terms of what Brazil has done in biofuels, we have a lot to learn from it.

I commend you for leading the effort to visit later this year. I commend both of you for working in a bipartisan fashion on this.

Also, Brazil has provided in a very difficult time a stability to the region that we really haven't been able to provide. In that sense, we should pay attention and work closely with Brazil.

Again, thank you very much.

Mr. ENGEL. Thank you, Mr. Fortuño.

I am now pleased to introduce our distinguished witnesses who are testifying today. Paulo Sotero is the director of the Brazil Institute at the Woodrow Wilson International Center for Scholars. The previous 17 years, Mr. Sotero was the Washington correspondent for *Estado de Sao Paulo*, a leading Brazilian newspaper.

Stan Gacek is the associate director of the international department at the AFL-CIO and a long-time expert on Brazil's labor movement. Prior to joining the AFL-CIO, Mr. Gacek was assistant general counsel to the United Food and Commercial Workers International Union.

Joel Velasco is managing director of Stonebridge International and manages the firm's Latin American practice. He previously served as a personal aide to former Vice President Al Gore and as a Special Assistant to the U.S. Ambassador to Brazil. He is here today as the chief United States representative of UNICA, Brazil's largest sugar cane industry association.

Finally, Mark Smith is the managing director for the Western Hemisphere at the U.S. Chamber of Commerce, as well as the executive vice president of the Brazil-U.S. Business Council.

Welcome. I want to welcome all our witnesses.

I note the arrival of our friend from New Jersey. I would ask him if he would like to make an opening statement.

Mr. SIRES. Mr. Chairman, not at this time. Thank you very much.

I have just been told we have a vote at 3:30.

Mr. ENGEL. Or thereabouts. Thank you. It is one vote, I understand.

Let me tell our witnesses to please keep their opening statements to 5 minutes or less; that they can submit their official statements into the record and expand on them in the 5 minutes. I will adhere strictly to the 5-minute rule.

Let me start with Mr. Sotero.

STATEMENT OF MR. PAULO SOTERO, DIRECTOR, BRAZIL INSTITUTE, WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

Mr. SOTERO. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Burton and distinguished members, it is an honor to appear before this House committee to share my views on United States-Brazilian relations.

I bring you personal greetings from the president of Wilson Center, Lee H. Hamilton.

The Brazil Institute, which I direct, is supported by private funds and foundation grants and receives no direct Federal funding. I speak today on my own behalf as an analyst of Brazil-United States relations.

Those relations reached a new level of maturity in the last two decades, thanks mainly to the consolidation of democracy and economic stability in my country. Brazil and the United States stand at a moment of promise and opportunity to work together to advance their interests, which are mostly convergent.

An illustration is Brazil's current leadership role in the U.N. Stabilization Mission in Haiti. MINUSTAH has been positive for the Haitian people. It helps the West by preventing an immigration crisis on American shores. MINUSTAH also demonstrates that a democratic and stable Brazil recognizes its international responsibility, is capable of effective leadership, and can be a positive force in the region and in the world.

The emergence of populist regimes in South America led Brazil to reaffirm its national interest in the stability of our region. Efforts by President Chavez of Venezuela to reduce the problems of South America to a confrontation with the United States have been clearly rejected by the government of President Lula and by Brazilian society.

Brazil distancing itself from the regime in Caracas is even more telling when one considers the context. With the United States embarked on an unpopular war in Iraq that alienated friends and allies, it would have been easier for President Lula to listen to Chavez. Instead, 3 months after the invasion of Iraq, which Brazil did not support, President Lula accepted President Bush's invitation to visit the White House. The meeting confirmed that the two Presidents would not let their opposing political views get in the way of maintaining the positive dialogue started by their predecessors.

The recognition in Brazil and the United States that both countries benefit from a relationship of proximity has a long history. Inevitably, there have been ups and downs and difficulties. Reality, however, has a way of pushing Brazil and the United States toward one another.

Since the collapse of FTAA, efforts by the Bush administration to broaden its strategy in the region were welcomed by the Lula administration, which also was looking for ways to refocus its international strategies after a series of setbacks. The bilateral initiative to promote cooperation on biofuels is emblematic of the positive moment we see today in the relationship.

But the promise and opportunity of collaboration created by the Presidents could be lost if policymakers in both countries fail to negotiate the difference that separates Brazil and the United States on the crucial issue of agricultural global trade and resolve the other important issues that have so far prevented the conclusion of the Doha Round.

I would like to conclude by touching upon the relation between trade, labor rights and environmental protection. These are legitimate concerns. I have problems when some of my fellow Brazilians rejected the discussion of both issues as a matter of principle, arguing that they do not belong in conversations about trade.

Abuses of workers' rights are not denied or ignored in Brazil. It is a subject of great concern, and it is seriously confronted by both Brazilian society and government. Obviously, much remains to be done. It would, however, be tragically counterproductive and unacceptable if Brazil's efforts to address abuses of human rights in the workplace were to be used as pretext for protectionist measures in the United States.

Finally, environmental protection is another area of legitimate concern. Debate and action in Brazilian society of environmental issues has evolved considerably. Research produced by Brazilian scientists in recent years is changing the terms of the national discussion by showing that preservation of the rain forest is essential to maintain the rain patterns that make Brazilian agriculture the world's most productive, and to replenish the reservoirs of the hydropower plants in south central Brazil that supply 85 percent of our electricity.

Stopping and reversing deforestation is an economic imperative for my country. It occupies a growing space in the domestic agenda and has entered the country's foreign policy. Brazil can be an environmental power. Climate change's fast rise to the top of the international agenda presents Brazil with a unique challenge and a unique opportunity to lead.

I would finish by saying that as the United States works to reassert its international position in the post-Iraq war era, it should intensify relations with Brazil on all fronts, and Brazil should reciprocate. It is time to turn into reality the notion of a bilateral and strategic partnership between our two countries.

Thank you, sir.

[The prepared statement of Mr. Sotero follows:]

PREPARED STATEMENT OF MR. PAULO SOTERO, DIRECTOR, BRAZIL INSTITUTE,
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

Mr. Chairman, I thank you for your invitation to appear before the House of Representatives Subcommittee on the Western Hemisphere to share my views about the US-Brazil relations. It is a great honor to give this testimony. I bring greetings to you and to the members of the Committee from the president of the Wilson Center, Lee H. Hamilton. We are grateful by the support the US Congress provides for the work we do at the Wilson Center. The Brazil Institute, which I direct, is supported by private funds and foundation grants. The Institute receives no direct federal

funding. The Institute is part of the Woodrow Wilson Center, which receives today roughly a third of its funding through a federal appropriation. I would like to clarify, however, that I appear here today on my own behalf, as an observer and analyst of Brazil-US relations. I ask your permission to summarize my written testimony, which I would like to be included on the record of this session.

Relations between the United States and Brazil reached a new level of maturity in the last two decades thanks to two historic events: the consolidation of democracy and economic stability in Brazil; and the end of the Cold War, which freed Washington to rethink its policies towards its neighbors in the Americas. Now, maybe more than at any time in their 175-year relationship as independent nations, Brazil and the United States stand at a moment of promise and opportunity to work together to advance their own national and international interests. Past and recent history suggests that longstanding Brazilian and American interests have been mostly convergent.

A current illustration is Brazil's 2004 decision to accept the military command of the United Nations Stabilization Mission in Haiti-MINUSTAH and lead a multinational contingent of more than six thousand soldiers and policemen. MINUSTAH has provided the Haitian people the opportunity to learn to negotiate their differences and tackle their social and economic problems. Unaddressed, these problems would inevitably turn tens of thousands of Haitians into desperate boat people and, as in the past, create a new crisis of immigration for the United States. Brazil also benefits from its role at MINUSTAH. The mission demonstrates, both to Brazilians and to the rest of the world, that a democratic and stable Brazil recognizes that it has international responsibilities, is capable of effective leadership, and can be a positive force in the region and in the world.

The emergence of populist regimes in South America led Brazil to refocus its policies and reaffirm its national interest in the stability of the region. Bolivia's decision to nationalize assets of Petrobras in May 2006, ignoring contractual clauses, reminded Brazilians of the importance of legal protection for our growing investments abroad. Efforts by president Hugo Chávez of Venezuela to reduce the problems of South America to a confrontation with the United States, while consolidating an objectionable authoritarian regime financed mostly by the proceeds from oil exports to the United States, have been clearly rejected by the government of president Luiz Inácio Lula da Silva and by Brazilian society.

Brazil's distancing itself from the populist regime in Caracas is even more telling when one considers the national and international context in which it happened. With the United States embarked on an unpopular war in Iraq that alienated friends and allies in the Americas and throughout the world, it would have been easier for President Lula to listen to Chávez and to some advisers from his own Workers Party, who share the Venezuelan leader's view of the world. Instead, three months after the invasion of Iraq, which Brazil did not support, President Lula responded to an invitation of President George W. Bush and brought ten members of his cabinet for a day of meetings at the White House.

The meeting of the two governments confirmed that Lula, the furthest to the left politician ever elected president of Brazil, and Bush, one of the most conservative presidents in recent US history, would not allow their opposing political views to get in the way of maintaining the positive dialogue started by their predecessors: presidents Fernando Henrique Cardoso and Bill Clinton.

The recognition in Brazil and the United States that both countries benefit from a relationship of proximity has a long history. Former European colonies that became independent fifty years apart, the United States and Brazil have historically been friendly nations. The United States was the first country to recognize Brazil's independence from Portugal in 1822. In 1906, Elihu Root honored Brazil with the first ever visit abroad by a Secretary of State, as the head of the U.S. delegation to the Third Pan-American Conference in Rio de Janeiro. Root's host, Foreign Minister José Maria da Silva Paranhos, was a political genius who would enter history as the founder of Brazil's modern diplomacy. Known as Baron of Rio-Branco, Paranhos was early to recognize the emergence of the United States in the international scene and to understand that the interests of the then-young Brazilian Republic lay in establishing close ties with the United States. Strictly through diplomatic means, Brazil prevailed in a series of territorial disputes with neighboring countries in the first decade of the 20th century, ensuring its current borders. Continental countries, Brazil and the United States have in common other important traits. From a shared legacy of their indigenous populations, of slaves brought from Africa and of immigrants who came from Europe, Asia and, more recently, the Americas, the two countries evolved to become the vibrant multiracial societies they are today.

Inevitably, there have been many ups and downs and moments of difficulty in the bilateral relationship. A recent example was the collapse, in late 2003, of the Free Trade Area of the Americas, a project of economic integration over which the two countries jointly presided. The FTAA failure cooled the dialogue for a while. Reality, however, has a way of pushing Brazil and the United States towards one another. The recent efforts by the Bush administration to show it has friends in the neighborhood and to broaden its regional strategy—to include the social dimension that is key to economic development and democratic governance—were welcomed by Brazil, where the Lula administration was also looking for ways to refocus its foreign policy strategy after a series of setbacks.

The warm reception President Lula gave President Bush in his official weekend residence in Brasília, in November 2005, after both participated in an embarrassingly acrimonious and unproductive Summit of the Americas hosted by Argentina put the bilateral dialogue back in high gear.

The initiative the two presidents announced last March to promote cooperation on biofuels is emblematic of the positive moment we see today in the bilateral relationship. Mr. Chairman, I could not agree more with the statement that you and Congressman Dan Burton recently made about the significance of the Brazil-US Memorandum of Understanding announced in São Paulo by Presidents Bush and Lula. It indeed marks a point of strategic confluence of interests between Brazil and the US. This initiative has created an important new space for the two nations—world leaders in biofuels—to collaborate in the advancement of the technology of ethanol and biodiesel production. The objective is to spread this technology, make it ecologically sustainable in various latitudes in the Americas, and open new markets for a renewable source of fuel that can and should be part of the solution to the enormous challenge of climate change.

The presidents' initiative needs to be followed-up with concrete actions on different fronts. Brazil and the United States are actively working with other countries to create an international standard for ethanol, which will allow its commercialization in the international markets. The expiration in January 2009 of the current incentives and protection the U.S. Congress has adopted to promote production of corn-based ethanol offers an opportunity for changes that, without threatening the U.S. industry, would allow imported ethanol to function as a stabilizer of supplies and prices in the American market as the United States transitions to cellulose-based ethanol. A bill introduced earlier this year by Senator Richard Lugar of Indiana contains the main elements of a new approach that would both preserve U.S. industry and broaden Brazil-U.S. and hemispheric cooperation to expand production of ethanol either as a supplement to fossil fuels in large economies or as an alternative in smaller ones. Allowing greater access of imported ethanol to the US is not an option, but a necessity if the country is to fulfill the federal mandate to increase five-fold the use of ethanol to 35 billion gallons in ten years in order to replace 20 percent of gasoline consumption. The broader question that will test constantly the credibility of any US policy that intends to reduce dependence on fossil fuels as a way to address climate change is whether Washington will continue to rely on the free trade of fuels that cause global warming while restricting the international trade of more environmentally benign forms of fuel.

It is important to understand, however, that the promising opportunity for collaboration created by Presidents Lula and Bush's initiative could be lost if policymakers in both countries fail to negotiate the differences that separate Brazil and United States on the crucial issue of agricultural global trade. This is a theme important in itself and will eventually be linked to the production and commerce of plant-based fuels.

As large producers and exporters of agricultural commodities, Brazil and the United States are sometimes competitors. Their failure to reach agreement on the Doha Round at the World Trade Organization, together with the European Union and India, has added an unnecessary heavy cloud on the horizon of a world economy again threatened by a crisis in the financial markets.

From Brazil's perspective, it is difficult to understand that the U.S. government could not improve its Doha offer of a ceiling of subsidies for agriculture below \$17 billion annually at a moment when rising commodity prices have reduced the amount of actual U.S. support payments to the farming sector to \$11 billion in 2006 and to less than \$10 billion projected for this year. Such a move would have unlocked the Doha Round, producing a reciprocal movement from Brazil, a country where the need to improve international competitiveness by lowering tariffs for goods, and continuing the liberalization of services is increasingly recognized as fundamental to higher sustained growth and prosperity. Growing investments abroad by our multinational companies and the successful development and commercialization by Brazilian innovators of patented products and processes, including in the

pharmaceutical area, have renewed the interest of businesses, government and academia in the protection of investments and intellectual property afforded by a credible international trade regime.

A positive resolution of the Doha Round, still possible, would reaffirm the centrality of a rules-based trading regime and create the conditions for the United States and Brazil to explore mutually beneficial bilateral or plurilateral trade deals. In that context, the unilateral concession of tariff exemptions the United States grants Brazilian exports under the Generalized System of Preferences (GSP) would become less relevant. The Brazilian and American companies that benefited from the GSP tariff exemptions (which covered \$3.6 billion out of \$ 24.4 billion Brazil exported to the United States in 2005) are certainly most appreciative of Congress' decision last year to renew the program for two years, with a few limitations. While the GSP program continues to be important for some sectors—and should be preserved—it is clearly a second best solution in the Brazilian case. Assuming the conclusion of a Doha agreement and an intensifying bilateral trade relationship, the benefits of this program should be reciprocated by Brazil, made permanent and incorporated in a mutually advantageous deal.

Even though trade is better than aid, foreign assistance should continue to play a role in the Brazil-U.S. bilateral relationship. The concern that you, Mr. Chairman, and Congressman Dan Burton, expressed in your September 13th letter to USAID Acting Administrator and Director of Foreign Assistance, Ms. Henrietta H. Fore, regarding the proposed reduction of assistance to Brazil from \$14 million in FY 2007 to \$2 million in FY 2008, is shared by Brazilian non-governmental organizations that have been supported in their activities by USAID. Well designed social programs can certainly continue to benefit from infusions of targeted foreign assistance. I would submit, however, that considering the United States budgetary constraints and the cooperative nature of our bilateral relationship, our governments should explore ways of combining our resources and talents in assistance programs in poorer countries in our own region and in Africa, a continent to which Brazil and United States owe a historic debt. As a Brazilian citizen, I hope to see the day when my country will be able to express our gratitude for the assistance we have received over the years from friendly nations, and become the donor country we are slowly evolving into.

I would like to conclude this testimony by touching upon two issues that I know are of interest to members of Congress: the relation between trade, labor rights and environment protection. Both are legitimate concerns and deserve serious attention.

Personally, I have problems when some of my fellow Brazilians reject the discussion of both issues as a matter of principle, arguing they do not belong in conversations about trade. The recent flooding of our own markets with cheap and sometimes unsafe products from Asian countries where labor is not allowed a free and independent voice forces us to reconsider this issue. Besides, Brazil has its own challenges in this area. I am aware that some members of the U.S. Congress have raised concerns about the issue of forced labor in my country. It is important to underline that abuses of workers' rights are not denied or ignored in Brazil. The Brazilian media has done its part to keep the issue in the public eye. It is a subject of great concern to Brazilian society and government. And it would be irresponsible not to recognize that President Lula, a leader who came from the labor movement, has kept his commitment to defend workers' rights in the last four and a half years. Don't take my word for it. A study of this very topic produced by the International Labor Organization was presented just yesterday at a conference we hosted at the Wilson Center. The report, entitled "Rights at Work," presents a comprehensive assessment of the implementation by four countries of commitments they made to combat all forms of abuse against workers rights as signatories of the 1998 Declaration on Fundamental Principles and Rights at Work.

Brazil is one of the countries studied by the ILO. The report concludes with a recognition that "Brazil has shown a strong commitment towards guaranteeing the rights and principles of the Declaration for all Brazilians," introducing various programs, legal reforms, policies and institutions "in an effort to initiate change across a spectrum of human rights issues, and to move the country toward compliance with the fundamental labor standards of the Declaration." The document highlights the positive involvement of no less than sixty companies in corporate responsibility initiatives to eradicate slave labor and the contributions made by the United States Department of Labor in some of the programs Brazil has implemented with ILO's assistance. Much remain to be done. This type of collaborative effort is producing results and should continue. It would be tragically counterproductive and completely unacceptable, however, if Brazil's recognition of the abuses against workers it confronts and the country's efforts to address the problem were be used as pretext for the adoption of protectionist measures in the United States and elsewhere.

Environmental protection is another area of legitimate concern, particularly in regard to the preservation of the Amazon and its biodiversity. The debate in Brazilian society over environmental issues has evolved considerably since the times when the military governments dismissed it as a foreign-inspired conspiracy against the country's economic development. The current minister and deputy-minister of the Environment come from the trenches of the environmental movement. The complicated challenges of sustainability are confronted daily in state capitals and in Brasilia.

Research produced by Brazilian scientists in recent years has changed the terms of the national debate by showing that the preservation of the rain forest is essential to maintain the rain patterns that make Brazilian agriculture the world's most productive, and to replenish the reservoirs of the hydropower plants in South-Central Brazil that supply 85 percent of the electricity to the country. Stopping and reversing deforestation is no longer a cause for the so-called "tree huggers." It is an economic imperative for Brazil, and the issue occupies a growing space in the domestic agenda. It has also entered the country's foreign policy. The preservation of the Amazon can no longer be treated in isolation, because it is crucially connected and dependent of the climate change strategies adopted by the countries that produce most of the greenhouse gases derived from the burning of fossil fuels. Brazilian efforts to preserve the rainforest would be fatally undermined by a continuing rise of the Earth's atmospheric temperatures.

Climate change's fast raise to the top of the international agenda presents Brazil with a unique challenge and opportunity to lead. As Ambassador Rubens Ricupero reminds us in his recent writings, Brazil does not possess the economic and military strength to claim a place among the major powers of the world. But it has the assets necessary to become an environmental world power if it so chooses. It is home of the largest and last tropical rainforest in the planet. Along with Canada and Russia, Brazil holds the world's largest reserves of fresh water. It houses the greatest number and concentration of living species. The country exhibits also the world's best energy matrix among major countries, using renewable sources of energy for 44 percent of its consumption. This compares to a world average of 14 percent. Brazil has also developed the most successful large scale and environmentally sustainable production of biofuels, in the form of ethanol. A former ambassador to Washington and minister of the Environment, Ricupero has added his authoritative voice to that of Brazilians who are working to move from the reactive environmental policies of the past to a pro-active stance—one that harnesses the country's assets in a strategy that gives unquestionable legitimacy to Brazil's aspirations to international leadership.

As the United States works to reestablish its connections to the rest of the world in the post-Iraq war era and reasserts its international position, it should intensify relations with Brazil on all fronts. As I said at the beginning of these remarks, our two countries have today a mature relationship, renewed and enriched by transactions conducted daily by Brazilians and Americans in the worlds of business, culture and government. The growing interests that bind our societies protect our bilateral ties, by forcing us to negotiate and resolve the differences that inevitably arise in various arenas without paralyzing or contaminating the overall relationship. We should now work to turn into reality the concept of an enduring bilateral partnership recently introduced in the diplomatic dialogue between Washington and Brasilia.

I thank you, Mr. Chairman, for the opportunity to share my views with you and the members of the Subcommittee. I remain at your disposal and will be glad to try to answers the questions you may have.

Mr. ENGEL. Thank you very much.

As you can hear, we have a vote, one vote. Mr. Gacek, we will listen to your testimony, give us a chance to take the vote, and come right back. We will recess, not adjourn.

Mr. Gacek.

**STATEMENT OF STANLEY GACEK, ESQ., ASSOCIATE DIRECTOR
OF THE INTERNATIONAL DEPARTMENT, AFL-CIO**

Mr. GACEK. Thank you, Chairman Engel, Congressman Burton, distinguished members. It is a great honor to testify on behalf of the AFL-CIO on the reality of Brazilian labor.

We believe that the election of Luiz Inacio Lula da Silva, a world-renowned trade union leader and friend of the international

labor movement, has made a difference in terms of achieving the cause of decent work in the Brazilian economy. Nevertheless, there are labor standard compliance issues in Brazil.

The International Labor Organization has defined decent work in terms of employment, social protection, social dialogue and compliance with fundamental principles and rights at work as defined by the 1998 ILO Convention. If we consider employment, social protection and social dialogue, there have been notable improvements over the last several years, and particularly during the Lula administration.

We can find this in terms of expansion of formal employment with the work registration card, which entitles the bearer to social protection. There has been a substantial rise in wages for the working poor, with a 25 percent increase in the real wage, real minimum wage, in Brazil over the last 4 years, and Brazilian social dialogue has burgeoned under the Lula administration, with there being tripartite consultation at almost every area of public policy.

But in order to look at decent work, and the decent work performance, we have to look at the fundamental principles of the core labor conventions of the ILO with respect to Brazil. A very brief disclaimer, I am not an expert on the forced labor issue, much more on freedom of association and collective bargaining issues, but I will do my level best to present some informed input.

My written testimony goes into great detail about freedom of association and the collective bargaining system. It would be too complicated to go into that now. Suffice it to say that there has been a traditionally a system of state corporatism in which the state has intervened, and, we would argue, in terms of authentic trade unionism, too much, with regard to collective bargaining rights and freedom of association rights. Nevertheless, it is important to point out that in 2004, an important constitutional amendment number 45 was passed, which actually eliminates the power of the labor courts to automatically intervene in all collective bargaining disputes, which was a way, actually, used very cynically in order to truncate strike action and strike capacity on the part of strong unions. So we see this as a great advance.

Also, it is expected that the national trade union centrals, which bring workers together on a multisectoral basis, will actually receive legal recognition in this second Lula government.

It is very, very important to point out, that even with this very questionable de jure system, an official system in which there is an undue intervention of the state with regard to content of collective bargaining and freedom of association rights, there is a whole de facto reality in Brazil of representative unions that are self-financed. President Lula had a great deal to do during his trade union career in order to nourish this de facto reality.

With regard to the issue of child labor, there have been important advances, a 50 percent reduction of child labor between 1995 and 2005. Much more needs to be done.

I am just saying, because of my time diminishing quickly here, that, with regard to these successful efforts of civil society, the Brazilian Government, and the role of the ILO and the International Program to Eliminate Child Labor, with U.S. Department of Labor

support, particularly in the late 1990s, is absolutely key to the success. Much more needs to be done.

Obviously, a big advance has been made with regard to Brazil with regard to expanding the stipend to families to keep their children in school as part of the Bolsa Familia program, and, actually, the United Nations Development Program estimates this has been one of the most significant factors in reducing child labor in Brazil. Nevertheless, it was recently announced by the statistical authority in Brazil, the IBGE, that there are still 5.1 million children who are working in Brazil, and this problem needs to be addressed.

Due to the interests of time, I will not be able to go into the whole topic of the issue of discrimination and employment, the employment market. There have been some significant advances, and I will be able to do that during the question period.

Let me just finally say that with regard to the forced labor issue, that this, indeed, is a very serious issue which the Lula administration has been attempting to take on, as well as what the former Cardoso administration did. The big difference is that Brazil is a country that has this big problem, and it has admitted that it has this big problem. Actually due to the Cardoso administration first admitting to that problem in 1985, that led to the creation of the mobile units. Presidential push has been very, very, very important. Without having to wait for the police and judicial authorization, they have had the power to actually go in, rescue workers and also to fine employers. There is much more that needs to be done.

I see that my time is running out, but let me just finally say that there are a lot of best practices of the Brazilian Government and civil society with regard to the forced labor issue. You mentioned the charcoal, Citizens' Charcoal Institute, Mr. Chairman. This is a very, very important initiative.

What also needs to be done, there needs to be more external monitoring; and a very, very important advance, the high court in Brazil finally deciding that there is Federal jurisdiction over these forced labor cases; this needs to be exercised more. Now this is going to remove a major impunity obstacle.

There is much to be done, much that can be contributed by the ILO and by AID. I would just conclude at this point, Mr. Chairman, just mentioning a speech which President Lula gave to the AFL-CIO when he was elected in 2002. He said to us as trade unionists, he said, "I don't know when the next trade unionist is going to be elected to the Presidency of Brazil. So for that reason, if I do well, you will do well; if I don't do well, we all won't do well."

We want to support him in all of his efforts.

Thank you, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Gacek. Let me say your full statement will be entered into the record.

[The prepared statement of Mr. Gacek follows:]

PREPARED STATEMENT OF STANLEY GACEK, ESQ., ASSOCIATE DIRECTOR OF THE
INTERNATIONAL DEPARTMENT, AFL-CIO

A good afternoon to the Chairman, Congressman Engel, and to the other distinguished members of the Subcommittee. I thank you for the opportunity to testify today on behalf of the ten million working men and women of the AFL-CIO concerning U.S.-Brazil relations, and, in particular, on the current reality of Brazilian labor law, labor relations and labor conditions.

Brazil is of great interest and strategic import to the US labor movement, given the presence of many significant U.S. multinational companies in the country, as well as a growing number of major Brazilian transnational enterprises locating in North America. The extensive commercial relations between our two nations, with the United States continuing as Brazil's principal single-country trading partner, and the substantial community of Brazilian nationals living and working in the U.S., make the need for working solidarity between the Brazilian and American union movements more important than ever. And both the AFL-CIO and our Brazilian trade union central partners see a critical role for including organized labor in achieving the full potential and promise of the recently signed Brazil-US memorandum of understanding on biofuels.

We believe that the election of Luiz Inácio Lula da Silva, a world-renowned trade union leader and a good friend of our international labor movement, to two successive terms as President of the Federative Republic of Brazil, has helped to advance the cause of decent work in the Brazilian economy. Nevertheless, there are labor standard compliance issues in Brazil, as there are, without question, in the United States.

The International Labor Organization (ILO) has defined the following as the four essential elements of decent work in the global economy: employment, social protection, social dialogue, and the fundamental principles and rights at work as articulated in the ILO's 1998 Declaration, including freedom of association, the right to organize, and the right to collective bargaining, (ILO Conventions 87 and 98) the elimination of all forms of forced labor, (Conventions 29 and 105), the eradication of child labor, (Conventions 138 and 182) and the elimination of discrimination in employment (Convention 111).

Considering employment, social protection and social dialogue, there have been some notable improvements over the last several years, and particularly since the Lula Administration began. Job generating economic growth reached 3.7 percent in 2006, accompanied by strong exports, moderate inflation, a reduction in the ratio of internal debt to GDP, and a curb on the earlier vulnerability to global financial markets¹. For the period of 1990 to 2003, on the other hand, Brazil failed to exceed an annual growth rate of two percent, and was plagued with higher internal debt, negative trade balances, and high unemployment².

From 2003 to 2006, over 4.2 million new formal sector jobs with the *carteira assinada*, or employment registration card, were created, making for an average of 102,000 new jobs per month. This figure is 13 times higher than the average for the period of 1995 to 2002, which was only 8300 per month³. This is an important development, as the *carteira assinada* means that its bearer enjoys Brazil's network of legally guaranteed social protection, including, but not limited to, social security, paid vacation time, and the Federally Guaranteed Severance Fund, or FGTS (*Fundo de Garantia do Tempo de Serviço*). This increase in registered employment has also made a significant incursion into Brazil's overwhelming informal labor market, where there are no such guaranteed protections. In 2002, it is estimated that the informal sector constituted 50 percent of the total workforce in Brazil's major metropolitan areas. That estimate fell to less than 45 percent for January of 2006⁴. And the Lula Administration has managed to achieve a drop in national unemployment from 11.7 percent at the end of 2002 to about 9.8 percent in 2005, representing an overall relative decline of approximately 29 percent⁵.

Nonetheless, Brazil still struggles with its historic and structural legacy of massive poverty and acute income inequality. The wealthiest 10 percent of the population account for more than 40 percent of the total income, while the poorest 40 percent earn less than 10 percent⁶. As of 2003, about 20 percent of the population was living on less than \$2 US per day, and 8 percent on less than \$1⁷. In response, the Lula Administration created a Ministry of Social Development to oversee and coordinate all social programs and poverty alleviation efforts, including the *Bolsa Família*, which provides cash transfers to indigent Brazilian families conditioned on school attendance for children, child vaccinations, and pre-natal visits. *Bolsa Família* covers about 11.2 million families (approximately 44 million persons), and

¹ Background Note: Brazil, U.S. Department of State, 2007, p.2, www.state.gov

² Thomas, Vinod, *From Inside Brazil: Development in a Land of Contrasts*, Stanford University Press, 2006, pp. 12–14

³ O Brasil Mudou, www.pt.org.br, 2006

⁴ Fligenspan, Flavio Benevett, "Ganhos e Perdas no Mercado do Trabalho no Real—Uma Revisão por Posição na Ocupação." R. Econ. Contemp., Rio de Janeiro, 187–196 (2005).

⁵ O Governo Lula Avançou em Todas as Areas, São Paulo, 2006, www.pt.org.

⁶ Barros, Ricardo Pães de, Mirela de Carvalho, Samuel Franco, Rosane Mendonça, *A Queda Recente da Desigualdade de Renda no Brasil*, Brasília, IPEA, 2006, 2006, 2v., p. 108.

⁷ World Bank Country Brief, 2007

has contributed substantially to a 20 percent drop in Brazilian poverty over the last six years⁸.

And recent improvements in the income of Brazil's working poor have been substantial. From 2003 to 2006, the minimum wage has increased from 200 reais per month to 350 (now approximately \$175), making for an injection of about \$17.7 billion into the Brazilian economy without significant inflationary pressures. And this rise of 150 reais in the nominal figure produced an increase of 25 percent in the real minimum wage. This hike has also meant that the buying power of Brazil's working poor on one minimum wage has gone from 1.3 *cestas basicas* (basic family food basket) to 2.3. All in all, these improved employment trends, increases in the minimum wage, and direct subsidies to poor families contributed to Brazil's Gini Coefficient Index falling to 57.4 by 2006, the lowest degree of inequality in three decades⁹.

Brazilian social dialogue has definitely grown and improved over the last four years. The Lula Government has convened official national councils and forums, with guaranteed trade union and employer representation, embracing almost every aspect of public policy. The National Social and Economic Council, created in 2003, includes representative leaders from labor and business, and has exerted substantial influence in the formulation of significant legislative proposals and executive orders. The tripartite National Labor Forum (FNT) was also founded in 2003, and guarantees an equal number of employer, trade union and government representatives to review Brazil's labor law system with a view to achieving improved compliance with ILO freedom of association and collective bargaining standards.

A complete evaluation of Brazil's decent work situation must also include the fourth and final critical dimension—the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. I will review each of the Declaration's core labor standards in relation to the Brazilian reality.

FREEDOM OF ASSOCIATION, THE RIGHT TO ORGANIZE AND COLLECTIVE BARGAINING

Brazil ratified ILO Convention 98 on the right to organize and collective bargaining in 1952. In the early 1980's, the Brazilian Chamber of Deputies voted to approve Brazil's adoption of ILO Convention 87 on freedom of association and protection of the right to organize, but the Senate failed to act on the measure at the time. The Lula Administration and its Labor Ministry have publicly recognized the importance and necessity of moving forward with Convention 87 ratification.

The Brazilian *de jure* system of labor law and labor relations is defined by the Consolidation of Labor Laws, or CLT, the Constitution, clauses in collective agreements that are approved by and registered with the regional labor courts and the Supreme Labor Court (TST), and all labor court decisions on individual and collective disputes. The CLT continues as the fundamental dimension of the Brazilian labor law regime, and includes more than 900 articles governing occupational safety and health, hours, working conditions, union structure and labor relations. Brazil's populist and strongman President Getulio Vargas promulgated most of the CLT in 1943.

In a brilliant move designed to achieve both worker approval of his administration and maintain rigid governmental control over worker power, Vargas constructed a state corporatist regime of labor relations with : 1— a highly interventionist labor justice system; and 2— a hierarchical union structure of worker organizations and employer associations (also called unions), all supported by a mandatory tax imposed on each and every worker, regardless of voluntary union membership, and euphemistically called the *contribuição sindical*, or union contribution. The CLT permits only one union (*sindicato*) to represent the workers in a given professional category (ie, metalworkers, bankworkers, bakers) for a given geographical area, which generally corresponds to a municipality. This exclusive representation system, known as *unicidade*, also applies to the professional category of workers at the state level (*federações*) and nationwide (*confederações*).

More militant and progressive unionists have demanded an overhaul of this regime, as it limits the ability of workers to form competing and more genuinely representative structures. It also concentrates collective bargaining rights with the municipal *sindicato*, does not effectively strengthen worker representation at the firm and enterprise level, and hampers genuine collective bargaining capacity with a

⁸Lindert, Kathy, "Brazil: Bolsa Familia Program: Scaling-up Cash Transfers for the Poor, Managing for Development Results, March 2006, www.mfdr.org/sourcebook/6-1. Also see, www.undp-povertycentre.org/newsletters/workingpapers21.pdf

⁹World Bank Program Report, 2006

company or sector at the national level. Moreover, it does not recognize worker organization on a cross-sector basis—namely, national trade union centers.

Although the compulsory tax might appear attractive and empowering to a labor organization, it really is not by any measure of authentic trade unionism. Its proceeds may only be used for a limited set of social welfare services provided by the *sindicato*, as well as material support for the official superstructure at the state and national levels. Its revenues may not be spent on strike funds, political mobilizations, or for the development of more representative structures and strategies. In sum, Brazil's official system of union structure and financing raises important Convention 87 compliance issues.

There also have been significant Convention 98 problems in Brazil. The labor courts have the power to determine the content of collective agreements between employers and trade unions, by means of the *dissidio coletivo*, or compulsory interest arbitration system. Once the *dissidio* is final, the union's legal right to maintain strike action or other economic pressure terminates. According to Article 616 of the CLT, either of the negotiating parties (or the court president or Attorney General of the Labor Justice System) may unilaterally invoke the *dissidio* process, a legal tactic leveled against more militant unions with effective strike capacity. Moreover, the labor courts have tended to be very conservative in what they have awarded through the interest arbitration system. They often limit approval to those non-economic clauses with a record of judicial precedent. And as for economic clauses (ie, yearly wage adjustments), Article 623 of the CLT states that the *dissidio* cannot contradict official government economic and salary policy.

Another Convention 98 issue for Brazil is that neither the Constitution nor the federal statutory law provide full collective bargaining rights to public servants. In addition, there continue to be acts of anti-union discrimination committed by certain employers, including intimidation and firings, especially in strike situations, even though the firing or permanent replacement of strikers is prohibited by law. And, tragically, there have been reports of violence and assassination committed against rural labor activists in some regions of the country.

There have been notable efforts recently to change the CLT and the Constitution to improve conformity with Convention 87 and 98 standards. In 2004, the National Labor Forum recommended that Brazil should do the following: 1— take the necessary steps to ratify Convention 87; 2— phase out the union tax and *unicidade* regime, replacing it with a system in which voluntary organization and association, without government or third-party interference, would determine union structure and financing; and 3— remove the unilateral intervention of the labor court system in collective bargaining situations. The first Lula Government drafted a proposal based on the Forum's conclusions and recommendations, and it is still pending Congressional approval. Given the persistence of strong pro-corporatist interests in the Brazilian Congress, it will not be easy for the second Lula Government to pass the constitutional amendment necessary to reform *unicidade*.

However, a significant development is Constitutional Amendment No. 45 of December 8, 2004, overturning the unilateral intervention of the labor courts in collective disputes. The *dissidio* process now requires the consent of both negotiating parties. This is a very important step toward Convention 98 conformity, and also advances the right to strike pursuant to Convention 87.

Due to a lack of congressional support, President Lula had to withdraw his provisional decree in 2006 that would have legally recognized the *de facto* and highly representative national, multi-sector national labor centrals, such as the CUT (Unitary Central of Workers), the Forca Sindical (Trade Union Strength), and the UGT (General Union of Workers). However, the measure is expected to pass in this second Lula administration.

Finally, it is very important to recognize that in spite of a *de jure* system that officially limits and controls the exercise of Convention 87 and 98 rights, progressive Brazilian unionists have created *de facto* structures, such as the national trade union centrals, that are very strong and influential. They have implemented direct and independent bargaining relations with certain employers, including multinational enterprises, have created parallel national sector and industrial confederations proving to be more representative than the official, and have even remitted the proceeds of the trade union tax to their rank and file, relying on other sources, including voluntary membership dues. Although voluntary membership is considerably less than 20 percent nationally, there are very significant and powerful unions with much higher rates of affiliation—bankworkers, metalworkers, oil and chemical workers, the commercial workers of São Paulo, organizations of public servants, and certain farmworker *sindicatos* and federations, for example. It is precisely because of this *de facto* system, which President Lula also helped to build during his years as a trade union leader, that the Brazilian labor movement has the well-deserved

international reputation of being democratic and dynamic. Ironically, the Brazilian *de jure* regime needs to catch up with the *de facto* reality.

ERADICATION OF CHILD LABOR

As the Brazilian Labor Ministry stated in its National Plan for the Prevention and Eradication of Child Labor published in 2004, the imposition of work on children has been a chronic reality dating back to Brazil's period of Portuguese colonization and the introduction of slavery. Brazil's subsequent industrialization process of the 20th century not only kept the practice intact, but expanded it to accommodate the growth of the nation's capitalist economy. And given a dramatic rise of the Brazilian child and adolescent population from the 1960's onward, continuing income inequality and poverty, and an inveterate social ethic saying that child labor would prevent delinquency among the poor, it is not difficult to understand why this problem has persisted.

Over 4 million children were successfully removed from the Brazilian labor market over the last decade, and there was a slight drop between 2005 and 2006, as the Brazilian Institute of Geography and Statistics (IBGE) just revealed on September 14. But the IBGE also concluded that 5.1 million Brazilian children between the ages of 5 and 17 continue in the labor force¹⁰. Nearly half of these children and youth receive no income at all, and well over 90 percent are predictably in the unregistered informal sector. Slightly more than half of the child laborers work in rural areas¹¹. Urban child labor also includes some of the worst forms for the purposes of ILO Convention 182—prostitution and drug trafficking.

Although effective compliance with the ILO eradication standards remains a challenge, Brazil is arguably the world's leading nation in terms of innovative public policy to combat child labor. During both the Cardoso and Lula administrations, there have been significant government directed initiatives, as well as mobilizations, education, and actions initiated by civil society. All of these measures contributed to an estimated 50 percent decline in Brazilian child labor for the period of 1995 to 2005¹².

The Brazilian Congress took an important step in December of 1998 by raising the minimum working age from 14 to 16, and increasing the minimum age for apprenticeships from 12 to 14 years. The law requires parental permission for any apprenticeship, and the minor must also remain in school. The law also bars all minors under 18 years of age from work that constitutes a physical strain and from nocturnal, unhealthy, dangerous, or morally harmful employment. The Brazilian Government went on to ratify both the ILO minimum age convention (138) and the worst forms of child labor eradication convention (182) in December of 1999. And by 2001, the Cardoso administration's Labor Ministry defined 80 activities as constituting the worst forms, including sugar cane cutting, pesticide application, and the driving of tractors. Such a definition means that no minor under 18 years of age can legally perform any of those functions.

Over the last several years, the Brazilian Government has devoted more resources to the special child labor investigation and eradication units of the Labor Ministry's regional departments, and the Labor Attorney General's Office (MPT) has recently hired over 50 prosecutors to work on nothing but child labor cases. The MPT has also assumed greater investigatory powers, and has been able to impose higher fines on employers violating the law. For the period of January to August of 2006, the Labor Ministry reported that its inspection and child labor eradication units rescued nearly 8500 children from exploitive and illegal employment¹³.

As I noted earlier, the Lula Government's subsidy program to poor families (*Bolsa Familia*) continues the direct cash-stipend for keeping children in school, with one million children benefiting in 2005, and an estimated 2.2 million doing so in 2006¹⁴. The UN Development Program (UNDP) has cited this public policy as being one of the most critical and successful causes of child labor reduction in Brazil¹⁵.

But the 50 percent reduction in Brazilian child labor between 1995 and 2005 is also due in great part to effective civil society organization and mobilization, involving trade unions, business, and many community and civic organizations. The Brazilian civil society actors I just mentioned founded the National Forum for the Pre-

¹⁰ Último Segundo, "Trabalho Infantil Recuou em 2006 ante 2005, 14/9/2007, <http://ultimosegundo.ig.com.br/economia/2007/09/14/ibge>

¹¹ Brazil, Country Reports on Human Rights Practices, Department of State, 2006, www.state.gov

¹² Brazil, Country Reports on Human Rights Practices, Department of State, DOS, 2006

¹³ Brazil, Country Reports on Human Rights Practices, DOS, 2006

¹⁴ Brazil, Country Reports on Human Rights Practices, DOS, 2006

¹⁵ www.undp-povertycentre-org/newsletters/working_papers21.pdf

vention and Eradication of Child Labor in 1994, which implemented a nationwide and mass-based campaign for public education. The Forum's campaign did much to undo the dominant myth that child labor was good for preventing delinquency, and created an effective multiplier effect through the civil society participants. For example, the national trade union centrals initiated their own child labor eradication campaign, educating their base and pushing for the inclusion of monitoring clauses in collective agreements. They also implemented their own initiatives to keep children in school and provide sustainable employment alternatives to the impoverished or unemployed parents, by means of union sponsored cooperatives. *Projeto Eremim* of the Osasco Metalworkers in Greater São Paulo is a good example of such a program. And certain employer initiated programs, such as the ABRINQ Foundation of the Brazilian toy industry, required its participating manufacturers to guarantee the absence of child labor in the entire supply chain.

In the mid and late 1990's, the ILO and its International Program to Eliminate Child Labor (IPEC), played an essential role in assisting and underwriting these governmental and civil society efforts with major funding from the U.S. Department of Labor. These IPEC-DOL projects successfully targeted child labor in Rio Grande do Sul's shoe industry, helped remove children from charcoal production in Mato Grosso do Sul, and helped establish the first household survey on Brazilian child labor conducted by the Brazilian Institute for Statistics and Geography.

Significant shortcomings in Brazilian law and policy remain. In addition to overwhelming fiscal and budgetary constraints impeding more effective eradication efforts, the Labor Ministry's child labor inspectors currently have difficulty entering critical worksites, including many farms, private estates, and homes. And as the National Commission for the Eradication of Child Labor (CONAETI) has admitted, the law is lacking in a number of critical areas. For example, there is no criminal liability for the per se exploitation of child labor. Civil fines continue as the maximum penalty. The Labor Ministry's National Plan for 2004-7 recognizes these particular problems, and urges their solution. But much will obviously depend on the current Lula administration securing the necessary support and cooperation in the Brazilian Congress.

ELIMINATION OF DISCRIMINATION IN EMPLOYMENT

In terms of ratifying international standards prohibiting discrimination in the workplace and the greater society, Brazil has been exemplary. The nation ratified ILO Convention 100 on equal remuneration in 1957, and followed with the ratification of Convention 111 on ending discrimination in employment in 1965. Brazil adopted the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1984. In 1986, the Constitutional Assembly of the Brazilian Congress incorporated the intent of these conventions directly into its drafting of the 1988 Constitution. Article 5 of the Constitution states that women and men have equal rights and duties. Article 7(30) prohibits unequal standards and practices in wages, hiring, and the performance of employment duties due to gender, age, race and marital status, and Article 7(31) bans discrimination in employment due to disability. Article 7(18) mandates compensated maternity leave, and Article 7(20) mandates the adoption of special incentives to protect women's status in the labor market.

Notwithstanding an impressive constitutional framework, Brazil continues to struggle with historic and systemic inequality and discrimination in its labor market, with women and Afro-Brazilians being especially affected. Both groups together constitute over 68 percent of Brazil's economically active population, and number well over 55 million persons. Afro-Brazilian women constitute about 18 percent of the economically active population, and number over 14 million¹⁶. On average, they receive 55 percent of the wage earned by white Brazilian women¹⁷.

Although Afro-Brazilians constitute over 45 percent of the Brazilian population, they are under-represented in the professions and high income fields, they receive only 50 percent of the wage earned by whites, on average, and their unemployment rate is much higher than the rest of the population¹⁸. And women are earning 30

¹⁶ Abramo, Lais, "Desigualdades e Discriminação," ILO, p. 1; Peggy Lovell, "Race, Gender and Regional Labor Market Inequalities in Brazil," *Review of Social Economy*, Vol LVII, No. 3, September, 2000, pp. 277-93

¹⁷ Internationally Recognized Core Labor Standards in Brazil, ICFTU, 2004

¹⁸ Abramo, Lais, "Desigualdades e Discriminação de Gênero e Raça no Mercado de Trabalho Brasileiro e Suas Implicações para a Formulação de Uma Política de Emprego, ILO, p. 1

percent less than men, on average, and are also under-represented in many of Brazil's top professions¹⁹.

Nonetheless, Brazil has been successful over the last decade in passing significant enabling legislation that demonstrates improved compliance with the ILO conventions, as well as with the Brazilian constitutional requirements. For example, in 1999, the Brazilian Congress specifically amended the CLT to proscribe discrimination not only in employment, but in vocational training, on grounds of gender, age, race, or family status, including pregnancy. The legislation also prohibits the publication of discriminatory employment advertisements, which has been a pervasive problem. In addition, the Brazilian Congress amended the National Penal Code in 2001 to impose criminal liability on the perpetrators of certain types and practices of sexual harassment. There is now a one to two year sentence term for those officials or managers who use their position to pressure an employee to provide sexual favors.

Since 1996, the Brazilian Labor Ministry has established, with ILO assistance, special Centers for the Prevention of Discrimination in Employment in every state of the Brazilian union. These centers incorporate and mobilize the key representatives of the state and local governments, trade unions, business, universities, and organizations of women, blacks, indigenous peoples and the disabled, to combat discrimination at the state and municipal level. Specifically, they coordinate grass roots education campaigns, including the encouragement of discrimination victims to file legal complaints with the Public Ministry or with the Office of the Attorney General (*Procurador Geral da República*).

The Lula administration has demonstrated a strong desire to fight employment discrimination with measures that are both politically symbolic and substantive. A woman, Justice Ellen Gracie, recently assumed the Presidency of the STF (Supreme Federal Tribunal), the nation's highest judicial authority over constitutional questions. President Lula also appointed the first Afro-Brazilian judge to this same court, and has brought four Afro-Brazilians ministers into his Cabinet. He is urging the Brazilian Congress to adopt the Racial Equality Statute, that would implement in five years an affirmative action goal of one third of the civil service being Afro-Brazilian, as well as attaining similar objectives for the universities and private sector.

In 2003, President Lula took the unprecedented step of establishing two federal departments to combat discrimination with full ministerial status in his Cabinet—the Secretariat for the Promotion of Racial Equality (SEPPIR) and the Secretariat for Women's Policies (SPM). Both of these secretariats are developing the proposals for the necessary legislative reform to advance equality and non-discrimination, as well as designing effective multiplier-effect programs with the active cooperation of civil society. The SPM launched a project two years ago in cooperation with 16 major state and mixed enterprises in the mining, energy, banking, communication, and agricultural sectors, promoting equal opportunities for their female and male employees, called the Pro-Gender Equity Program. The enterprises were monitored for their success in implementing affirmative action measures, and were required to meet a satisfactory standard of performance in order to receive a promotional seal from the SPM. It is expected that 60 corporations, including strictly private sector companies, will be involved in the next stage of the campaign.

Another Brazilian anti-discrimination measure striving for a significant effect through civil society mobilization has been INSPIR, the Inter-American Trade Union Institute on Racial Equality. INSPIR was founded in 1994 by the Brazilian trade union centrals, the AFL-CIO and ORIT (Inter-American Regional Organization of Workers), to promote effective labor advocacy throughout the hemisphere in the fight against racial and other forms of discrimination, with a special emphasis on Brazil. INSPIR has received material and technical support from the AFL-CIO's American Center for International Labor Solidarity, and has accomplished three important objectives: 1— commissioned DIEESE, the Inter-Union Department of Social-Economic Studies and Statistics, Brazil's premier labor research center, to complete an unprecedented study in 1999 on racial discrimination in the labor market, which continues as a strategic reference today for the Labor Ministry and national policymakers; 2— provided significant education and training for labor leadership and rank-and-file on fighting employment discrimination; and 3— negotiated new and more effective anti-discrimination clauses in collective agreements.

Although the Cardoso and Lula administrations have implemented important legal reforms and public policies over the last decade, the overwhelming and persisting statistics on discrimination in the labor market continue to challenge those

¹⁹“Presentation of the 6th Brazilian National Report,” 39th Session of the CEDAW Committee, New York, July 25, 2007, pp. 8–9

efforts. The ILO's contribution can continue to be invaluable in this area, as it also has been in the fight to eradicate child labor in Brazil. ILO technical assistance was very significant in launching the Centers for the Prevention of Discrimination in Employment ten years ago. And the ILO has offered important technical help to the SPM's Pro-Gender Equity project.

ELIMINATION OF FORCED LABOR

One of the most difficult challenges facing the second Lula administration is the successful elimination of forced labor and its associated practices of trafficking. Debt bondage and coercive detention conditions have plagued certain regions and production chains in Brazil for generations. Fifty years ago, Brazil ratified ILO Convention 29 on forced labor. It went on to ratify Convention 105 on the abolition of forced labor in 1965, followed by ratification of Convention 182 in 2000, which concerns, among other things, children subjected to slave labor conditions. The 1988 Constitution expressly proscribes forced labor, as do a series of federal statutory laws.

In 2004, the ILO calculated that nearly 40,000 persons in Brazil were working in slave labor situations, although reliable statistics are difficult to obtain due to the remoteness of suspect workplaces and the clandestine nature of the labor recruitment practices²⁰. Maranhão, Piauí and Tocantins are considered the three Brazilian states supplying the largest number of forced laborers, while Pará is the state with the greatest demand, followed by Mato Grosso, Tocantins and Maranhão²¹. Forced labor affects primarily those production sectors located in rural areas, including forest clearing, grass-seed sowing, sugarcane, cotton and coffee harvesting, mining and wood-based charcoal production, known as *carvão vegetal* in Portuguese. Although some studies indicate that the *carvão vegetal* sector constitutes a very small percentage of the total number of Brazilian workers subjected to slave labor²², it is also known that almost 90 percent of the pig iron produced from this charcoal is exported to the United States²³.

Deceitful labor contractors, also known as *gatos*, will recruit the victims on the basis of false promises of good pay, benefits and working conditions. The contractors will transport and confine the workers to workplaces exceedingly isolated and remote. On arrival, the workers have their *carteira assinada*, or work registration card, confiscated, depriving them of their ticket to formal sector rights, benefits and protections. They start working very long hours, go unpaid indefinitely, and any effort to escape their forced employment is often met by violence. In many cases, the workers acquire an overly inflated debt with exorbitantly high interest for the travel and living accommodations, creating the classic debt bondage situation. In some cases, the false promise trap of the labor contractor will lure a woman or girl into what becomes forced prostitution²⁴.

In the recent past, the ILO supervisory system reported Brazil having serious impunity problems at the local level in relation to forced labor. Criminal penalties often have failed as an effective deterrent. Powerful local interests and their attorneys have tied up the process by arguing that the state, rather than the federal courts, have criminal jurisdiction over forced labor issues, and, therefore, both the federal judiciary and Brazil's Attorney General cannot get involved.

Nonetheless, Brazil has taken some important legal and policy steps over the last ten years that should be recognized, supported and actively aided by the international community. In the first place, in contrast to some other nations with a serious forced labor situation, the Brazilian Government has openly admitted to its people and to the world that the social evil persists and must be eliminated. President Cardoso did so in 1995, leading to the creation, with ILO assistance, of the Brazilian President's Task Force for the Elimination of Forced Labor (GERTRAF) and the Labor Ministry's Special Mobile Inspection Group (GEFM). The GEFM gave the Labor Ministry a rapid response capability to physically liberate workers from slave labor conditions, without having to wait for judicial authorization or police intervention.

Like President Cardoso, President Lula admitted publicly in his first administration that Brazil continued with the bane of slave labor and must do everything to end it. He also made a direct appeal to the farmers and landowners of the forced labor infested states to join with him in the effort. In 2003, he created the National

²⁰ "Waiting in Correntes: Forced Labour in Brazil," World of Work No. 50, ILO, Geneva, 2004, pp. 15-16

²¹ Anti-Slavery International, Contemporary Forms of Slavery in Brazil, www.antislavery.org

²² Anti-Slavery International, Contemporary Forms of Slavery in Brazil, www.antislavery.org

²³ Andrea Leal, "Escravos de Aço?" Revista Época, 27/3/2007

²⁴ See ILO CEACR Individual Observation Concerning Convention 29 (2002) on the issue of child prostitution in the State of Rondonia.

Commission for the Eradication of Slave Labor (CONATRAE), which has coordinated with nearly every federal ministry and major civil society organization, including business and the labor unions, to achieve maximum effect. The Lula administration also launched its National Plan for the Eradication of Slave Labor in 2003, which demanded a dramatic increase in the number of raids and liberation missions executed by the GEFM. In order to achieve such a goal, the Lula Government tripled the GEFM's budget in 2004. The Brazilian Government reported that GEFM's raids and liberation missions from 2003 to 2005 exceeded those for the period of 2000–2002 by 172.8 percent²⁵. From 1995 to 2006, it is reported that the GEFM conducted inspections and raids on 1686 landholdings, liberating 21, 777 workers²⁶. Most of these workers were freed during the first three years of the Lula administration—about 12, 000 for the period of 2003–2005²⁷.

In 2002, another important weapon was added to the GEFM's arsenal—the mobile courts. These are basically administrative judges from the Labor Ministry who travel with the mobile inspectors, imposing fines, freezing bank accounts, and seizing assets of the violators. The mobile courts also expedite the recovery of back wages to the victim²⁸. In addition, the GEFM unit will recover or reissue the victim's work registration card, and will direct him (or her) to the Labor Ministry's vocational training services for alternative job placement. In addition, since 2005, liberated workers are entitled to unemployment and family allowance benefits for at least three months²⁹.

In March of this year, President Lula successfully defended the power of the mobile courts and the GEFM units by vetoing the congressional approval of “Amendment 3,” which would have stripped the power of these inspectors under the guise of bureaucratic consolidation and reform.

In 2003, Brazil passed Act No. 10.803, amending the Penal Code to guarantee prison terms of two to eight years for anyone responsible for imposing slave labor conditions on another. And in 2004, the Brazilian Congress adjusted the law to guarantee equality in criminal penalties between urban and rural areas. And, most significantly, the Supreme Federal Tribunal (STF) ruled in December of last year that crimes related to forced labor must be prosecuted and tried in the federal system, eliminating an important impunity tactic wielded by local landowners and interests.

The Lula administration has also proposed the passage of a constitutional amendment that would permit the confiscation of land used for slave labor purposes, including a provision empowering the Brazilian Government to use the expropriated holdings for the benefit of the rescued workers. This would do a great deal to reduce the problem of recidivism, as Labor Ministry statistics reveal that 40 percent of the workers rescued from forced labor in the last decade have been freed more than once³⁰. Nonetheless, this attempt at a constitutional change will confront redoubtable opposition on the part of powerful landed interests in the Brazilian Congress.

Another preventive measure supported by the Lula Government is the *Escravo nem pensar* project, with ILO support. This program is educating children and young people on how to avoid the traps of forced labor situations, and is part of the public school curriculum in those states and regions where the risk of slave labor is greatest.

The Lula administration has taken the additional step of strategically targeting companies known to have used or benefited from forced labor. In 2003, the Ministry of National Integration issued a decree containing the names of 52 individuals and enterprises that were using or had used slave labor based on convincing investigative evidence obtained from the Ministry of Labor. This measure came to be known as the *lista suja*, or “dirty list,” and was revised in August of 2006 to include the names of 178 companies and individuals. Once on the list, the individual or enterprise is immediately denied national subsidies, tax exemptions and any credit from state financial institutions for a period of at least two years³¹. Removal from the list depends on demonstrating the total absence of forced labor practices by the individual or company during the two year period.

²⁵ Report of the Brazilian Government to the Inter-American Commission on Human Rights, October, 2006

²⁶ Leal, Andrea, “Escravos de Açúcar,” *Revista Epoca*, 27/3/2007

²⁷ Anti-Slavery International, Contemporary Forms of Slavery in Brazil, www.antislavery.org

²⁸ Anti-Slavery International, Contemporary Forms of Slavery in Brazil, www.antislavery.org

²⁹ Decent Work in the Americas—An Agenda for the Hemisphere, 2006–2015, ILO, 2006, p.

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³⁰ “De volta ao trabalho escravo,” *Correio Brasiliense*, 1 de fevereiro, 2004.

³¹ Trafficking in Persons Report, Brazil, US State Department, 2007, www.state.gov; Leonardo Sakamoto, *A Economia de Escravidão no Brasil*, 30 de Maio de 2006, www.carvaocidadao.org.br

Forced labor in the wood-based charcoal segment of Brazil's pig iron production is not a new phenomenon, by any means. Marcelo Campos, of the Labor Ministry's Mobile Inspection Group, notes that it has been present for many years in the supply chain. Most of the *carvão vegetal* production is located in the northern and central states of Pará, Maranhão, Tocantins, Piauí and Mato Grosso.

Between 2001 and 2006, the demand for Brazilian charcoal production rose considerably due to a number of important causes, including the increased value of pig iron in the international market, a point not lost on the Brazilian *Companhia Vale do Rio Doce* (CVRD), the largest iron ore producer in the world³². This demand also has given a perverse impetus to more charcoal production involving forced labor. From 2004 to 2006, the CEFM units of the Labor Ministry reported having discovered and freed hundreds of forced laborers in charcoal camps that were supplying to six pig iron producers. But Labor Ministry records also indicate that the CEFM units were discovering slave laborers in charcoal production sites over a decade ago³³.

In 2006, the Social Observatory of the Brazilian CUT, Brazil's largest national labor central, thoroughly studied and reviewed an initiative by the Pig Iron Producers' Association of Carajás to police and reduce the incidence of slave labor in the industry—the ICC, or Citizen's Charcoal Institute. The Carajás Association, which includes leading pig iron companies and exporters from the states of Maranhão and Pará, founded the ICC in November of 2005, based on reports that some of their charcoal suppliers were using slave labor³⁴.

The ICC established its own system of auditors to investigate charcoal suppliers. Upon finding any evidence of non-compliance with a code of conduct for the pig iron industry issued in 1999 with the Labor Ministry and the Labor Ministry Attorney General's Office, the ICC produces its own "dirty list" and delivers it to the authorities, including the Labor Ministry. It also decertifies the offending supplier, meaning that each and every member of the Carajás Association will cease doing business with the source. The ICC reported last year that it had inspected 945 charcoal camps and stopped buying from 253 producers³⁵. As of February of this year, it stated that it had decertified over 312 suppliers³⁶. In addition to the ICC's monitoring information assisting the CEFM in strategically targeting its inspection and rescue resources, the industry's own dirty list can assist the Government authorities in denying any financing to suppliers using charcoal camps with forced labor.

Although the ICC's system has undoubtedly contributed to the Labor Ministry's ability to inspect and remedy violations in the pig iron industry, it certainly is not foolproof. CVRD certainly does not think so, as it announced in November of last year that it was refusing to supply iron ore to 10 pig iron companies in the Amazon region, including COSIPAR, a member of the Carajás Association. CVRD noted that in September of last year, the Labor Ministry discovered 29 slave laborers working for one COSIPAR charcoal supplier in the Amazon region³⁷.

Even though the ICC is an important dimension in the effort to eradicate forced labor in pig iron production, the Lula administration and Brazilian civil society also need to promote external and independent monitoring systems. In addition, the discovery of slave labor in the COSIPAR supply chain begs the question of the Brazilian authorities using more direct methods already at their disposal—namely, revocation of a pig iron producer's operating license, in addition to denying financing to a company that appears on a dirty list. And now that Brazil's highest court has resolved that criminal cases involving forced labor must be prosecuted and tried in the federal system, it is important to move forward with real prison sentences for those criminally responsible.

CONCLUDING REMARKS

This hearing is about U.S.-Brazil relations. And for that very reason, we should consider what might be done to improve those relations for the good of both nations, including Brazilian and American workers. The AFL-CIO believes that President

³² "Responsabilidade Social das Empresas Siderúrgicas Na Cadeia Produtiva da Ferro-Gusa no Região de Carajás: Os Produtores de Carvão Vegetal." Instituto Observatorio Social, Março, 2006

³³ Smith and Voreacos, "CVRD Won't Sell Iron Ore to Producers That Allow Slave Labor," Bloomberg News, November 22, 2006

³⁴ "Responsabilidade Social das Empresas Siderúrgicas na Cadeia Produtiva da Ferro-Gusa," Março, 2006

³⁵ Smith and Voreacos, "CVRD Won't Sell Iron Ore to Producers That Allow Slave Labor," Bloomberg News, November 22, 2006

³⁶ Brazilian Labor Ministry, MTE, www.mte.gov.br/sistemas/SGC/Arquivos/Planilha/produtores

³⁷ Smith and Voreacos, "CVRD Won't Sell Iron Ore to Producers That Allow Slave Labor," Bloomberg News, November 22, 2006

Lula has taken some significant steps to improve the lives of Brazilian workers, and, especially, those of the working poor. His administration has also made important and good-faith efforts to enhance freedom of association and collective bargaining rights, reduce child labor, combat employment discrimination, and diminish the incidence of forced labor. In our global economy, improving living standards and labor rights compliance for the benefit of Brazilian workers will only contribute to the welfare of working women and men in the United States.

But not surprisingly, Brazil's progress on labor rights is incomplete, and no single Brazilian President, even a trade unionist and a friend, can accomplish everything by himself. Both our governments should seriously discuss how the United States might continue to assist what have proven to be the best and most effective Brazilian public policies and civil society campaigns to improve labor rights compliance, especially in the fields of child labor eradication and the elimination of forced labor. Continued success often depends on continuity of commitment, and I would pay special attention to where ILO assistance to Brazil has been effective in the recent past.

I also believe, with all due respect to our Brazilian trade union colleagues, that the US experience in relation to freedom of association, collective bargaining and fighting employment discrimination, has much to teach, both bad and good. And without a doubt, Brazil has an unlimited store of knowledge to teach us when it comes to public policy innovation, civil society mobilization for the social good, and building an even more democratic and dynamic labor movement.

Mr. ENGEL. I will call a brief 15- to 20-minute recess. We will go vote and immediately come back. I will ask members to come back as soon as you can. We will then hear our last two witnesses' testimony. We will have a recess for about 15 minutes.

[Recess.]

Mr. ENGEL. Okay. The hearing will come to order. And we have been joined by our colleague, Donald Payne of New Jersey. And let me ask Mr. Payne if he has an opening statement that he would like to give.

Mr. PAYNE. No, Mr. Chairman, I will just commend you for holding this very important hearing. As we all know, Brazil is a very, very important player in Latin America, and certainly one of the largest democracies. And so we look forward to continued good relations with Brazil and our U.S. Ambassador, Ambassador Sobel, has been very anxious to move forward in programs there. And he is a Jerseyite, so I will have a good excuse to visit Brazil. So with that, I yield back, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Payne. Let me now go to our next two witnesses, and then we will have questions. So Mr. Velasco?

STATEMENT OF MR. JOEL VELASCO, CHIEF U.S. REPRESENTATIVE, SUGAR CANE INDUSTRY ASSOCIATION (UNICA)

Mr. VELASCO. Mr. Chairman, Congressman Burton, distinguished members of the subcommittee, thank you for the opportunity to come before you to discuss Brazil-United States relations. As requested, my remarks this afternoon will focus on Brazil's energy sector, its ethanol industry, and the memorandum of understanding on biofuels.

I am speaking here on behalf of UNICA, Brazil's largest sugar cane association, representing more than half of all ethanol produced in Brazil.

I have submitted my full statement to the committee. I ask that it be made part of the hearing record.

Having grown up in Brazil, this hearing is of particular significance to me. The subject matter is timely, and of utmost importance to U.S. foreign policy interests.

Along with the United States, Brazil is a leader in the production and use of biofuels. About 45 percent of all fuel in Brazilian automobiles is ethanol. Thanks to the ingenuity of Brazilian and American researchers, our drivers can choose whether to fill up with just ethanol, gasoline, or any combination of these two fuels. Brazil is the most advanced biofuels market in the world. And the energy revolution there has gained world attention. What could the United States learn from the Brazilian experience with ethanol?

Allow me to offer three lessons: We have learned in Brazil that diversification reduces dependency on fossil fuels. Brazil is now energy self-sufficient because of smart energy management and brave policy choices. Brazil has grown sugarcane for over 500 years, but it was in the 1970s, out of economic necessity, that Brazil's ethanol program gained momentum. Today, without subsidies, Brazilian sugarcane ethanol is competitive with oil as low as \$40 a barrel. Let us be clear, ethanol is not a silver bullet. It will not eliminate the need for fossil fuels altogether. The goal is not energy independence, but diversification and security.

Our second lesson is that stewardship of the environment is fundamental for energy security. Renewable fuels represent less than 1 percent of the world's energy production today. Despite that limited impact, and an abundance of land for production of sugarcane, Brazil has taken a leadership position in ensuring sound environmental and labor practices. Let me highlight three achievements. One, we have dramatically reduced the use of fertilizers by spraying vinhaca, a nutrient-rich liquid byproduct. In Brazil, sugarcane farmers returned water to the crop fields rather than dumped them in rivers and streams. The substantial expansion of sugarcane growing areas has led to an increase in productivity of other crops and livestock, not by their demise and move to more environmentally sensitive areas. And third, sugarcane ethanol has reduced pollution and emissions of greenhouse gases by as much as 80 percent in Brazil.

The third and final lesson that we have is the technology is essential to reduce costs, raise productivity, and increase demand. Henry Ford planned to use ethanol in his Model T, but cheap gasoline beat out ethanol. Today, thanks to innovative technologies, ethanol has taken the lead back from gasoline in Brazil. Two promising technologies are cellulosic biofuels, where Brazil expects to double ethanol production using existing cane byproducts, and bioelectricity. Our sugarcane mills in Brazil are net exporters of electricity. And with improved boiler technologies, much of it is American technology; we can generate five times more electricity, surpassing 15 percent of demand over the next decade.

Let me now quickly turn to the United States-Brazil biofuels cooperation. Earlier this year, Presidents Bush and Lula signed a trailblazing framework for cooperation on biofuels. The MOU has three distinct areas of focus.

First area is the technical cooperation for next generation biofuels. Earlier this month, about 20 Brazilian biofuel scientists visited their counterparts at U.S. National laboratories. We expect a delegation of American scientists to visit Brazilian labs soon, followed by the implementation of a cooperative R&D plan.

The second area is bringing the benefits of biofuels to our neighbors. President Lula's recent visit to Central America highlighted Brazil's strong commitment in this regard.

The third area is working bilaterally and multilaterally to establish global standards that can unleash the potential biofuels on a global basis.

The MOU is indeed a very good start to deepen the cooperation between our two countries. I would echo previous comments that this is an area of strategic confluence of interests that can be a transformative force in the region. The MOU, however, should not limit our ambitions. I would hope this committee will consider supporting efforts such as those of Senator Lugar to build on the MOU framework and realign U.S. diplomatic priorities to address the new geopolitics of energy security.

In closing, let me say that the Brazilian ethanol industry is committed an ambitious agenda of cooperation. In fact, my presence here today is part of an effort to present the industry's views directly, and to begin a process of more active engagement. We seek to expand the reach of biofuels not just in Brazil, but also worldwide. We want ethanol to become a global commodity, complementary with other biofuels, including those here in the United States. Together we can greatly expand its production and use in a sustainable way. Thank you, Mr. Chairman.

[The information referred to follows:]

PREPARED STATEMENT OF MR. JOEL VELASCO, CHIEF U.S. REPRESENTATIVE, SUGAR CANE INDUSTRY ASSOCIATION (UNICA)

INTRODUCTION

Mr. Chairman, Congressman Burton, and distinguished Members of the Subcommittee, thank you for the opportunity to come before you to discuss U.S.-Brazil relations. I appreciate the commitment that this Subcommittee has shown in strengthening our hemispheric dialogue, particularly by its focus on positive engagement and cooperation.

As requested, my remarks this afternoon will focus on Brazil's plans for its energy sector, particularly its sugar-cane ethanol industry and the recent Memorandum of Understanding on biofuels cooperation signed with the United States.

I am speaking on behalf of UNICA, Brazil's largest sugar cane industry association, representing more than half of all sugar cane produced in Brazil. Established in 1997, UNICA seeks to strengthen the dialogue with governments and society on issues related to the sugar cane, sugar and ethanol industry. UNICA is a private institution, receiving no government funding.

I have submitted my full statement to the Committee, which I ask be made part of the hearing record.

It is an honor and privilege to be at this hearing today. As a dual-citizen, born in the U.S. but having spent my childhood years in the interior of Brazil, this hearing is of particular significance to me.

ETHANOL IN BRAZIL: ROAD TO ENERGY SELF-SUFFICIENCY

Today, Brazil is a leader in the production and use of biofuels. About 45% of all fuel going into Brazilian automobiles is ethanol. Every fueling station in Brazil offers at least two types of fuel—gasoline and ethanol—and it is commonplace also to find natural gas and diesel, which will soon have at least 5% biodiesel content. In fact, the one thing you cannot buy in Brazilian gas stations is pure gasoline, since all gasoline is E20, containing at least 20% ethanol. Thanks to the ingenuity of American and Brazilian researchers during the 1990s, Brazilian consumers no longer have to choose what fuel they prefer in their cars at the dealership. Today, nearly every car sold in Brazil is "FlexFuel." At the pump, Brazilian drivers can choose whether they want to fill up with just ethanol (E100) or gasoline (E20) or any combination of these two fuels.

Brazil is the most advanced biofuels market in the world, and the biofuels success there has gained world attention. From the front pages of the world's newspapers to the U.S. Congress, everyone seems to be talking about how biofuels can help end our dependency on fossil fuels. Billions of dollars—\$17 billion over the next five years in Brazil alone—are being poured into ethanol production, with hundreds of thousands of jobs being created.

WHAT CAN THE U.S. LEARN FROM BRAZIL'S EXPERIENCE WITH ETHANOL?

1. *Diversification Dramatically Reduces Dependency on Fossil Fuels.* Previously largely an oil importer, Brazil is now self sufficient because of smart energy management. The ethanol program put Brazil on course to become energy self-sufficient, not by rejecting the role of petroleum but by promoting an alternative, a renewable and plentiful crop in Brazil.

Over 30 years ago, faced with oil crises, Brazil's government launched a program of fiscal incentives and tax exemptions to promote the use of ethanol nationwide. Brazil had been growing sugar cane for nearly 500 years, but it was not until the late 1970s, out of economic necessity and smart energy policies, that ethanol entered the mainstream of Brazilian life. We would not be here today without strong, clear blending mandates and regulatory framework that required—not just encouraged—the use of alternative fuels. Today, without subsidies, Brazilian sugar-cane ethanol is competitive with oil as low as \$40/ barrel.

Let us be clear: Ethanol is not a panacea nor is it a silver bullet. It will not eliminate the need for fossil fuels altogether. The goal is not energy independence, but diversification and energy security. As Brazil's experience shows, ethanol can lead the way to a more diversified and environmentally sound fuel supply.

2. *Stewardship of the Environment is Fundamental for Energy Security.* Renewable fuels, including ethanol, represent less than 1% of world energy production. The world consumes more than three times that amount in kerosene alone. Despite such limited impact and an abundance of land for production of ethanol (only 1% of all arable land in Brazil is used for sugar-cane ethanol, seven times less than that used for soybeans), Brazil has taken a leadership position in ensuring sound environmental and labor practices in its sugar cane ethanol production.

The ethanol industry has dramatically reduced the use of fertilizers in sugar cane production by spraying vinhaça, stillage, a nutrient-rich liquid by-product of ethanol production. In Brazil, sugar cane farmers return water to the crop fields, rather than dump them in rivers and streams.

While some incorrectly try to argue that increased sugar cane production will push cattle ranches north and lead to the deforestation of the Amazon, the industry's smart growth is proving otherwise. The substantial expansion of sugar cane growing areas has been met by an increase in the productivity of other crops and livestock, not by their move to environmentally sensitive areas. Growth has been driven by productivity, not mobility or expansion into Brazil rainforests.

Moreover, Brazil's experience of creating sustainable rural jobs, confirms that a viable biofuels industry can help sustain rural communities in the United States and bring much needed capital and jobs to America's rural areas.

Finally, Brazil's experience proves the significant positive impact that sugar cane ethanol can have in the reduction of pollution and emission of greenhouse gases in urban areas. Based on well-to-wheel emission calculations, the Brazilian ethanol program has reduced greenhouse gases by over 80% in Brazil.

3. *Technology is Essential to Reduce Costs, Raise Productivity, and Increase Demand.* Henry Ford planned to use ethanol as the fuel for the legendary Model T car, but gasoline became abundant and cheap, and edged out ethanol. Similarly, Brazil experimented with ethanol in the 1920s with limited success. It was not until better engines and more efficient technology were developed, particularly the emergence of FlexFuel engines, that consumer demand increased in Brazil. As we look ahead, future technologies, developed in Brazil and hopefully in cooperation with U.S. researchers, can increase the potential benefits and uses of biofuels. Two promising areas are cellulosic biofuels and bioelectricity, which can broaden the biofuels product base.

First, thanks to emerging cellulosic biofuels technology, using the existing byproducts of sugar and ethanol production, namely the bagasse, the Bra-

zilian industry expects to double ethanol production without increasing land use. And cooperating with existing research and development efforts in the U.S. and beyond, promising technologies can be combined with existing infrastructure to make a range of fuel products, beyond automobiles and competitive with lower crude oil prices.

Second, Brazilian sugar cane mills today are net exporters of electricity, thanks to improved steam boilers that generate electricity from the burning of the cane stalk (or bagasse and the stalk) remaining after the sugar is extracted. Today, Brazilian sugar cane mills sell over 1,400 MW to the country's electricity grid, more than the country's two nuclear power plants combined. And, we are optimistic that within the next decade we can generate five times more electricity, reaching 15% of Brazil's total demand and reducing the need to build large hydroelectric dams in environmentally-sensitive areas like the Amazon or dirty thermoelectric power plants.

U.S.-BRAZIL BIOFUELS COOPERATION

Recognizing that Brazil and the U.S. are responsible for 90% of the world production of ethanol, Presidents Bush and Lula established a framework for cooperation on biofuels. The Memorandum of Understanding, signed on March 9 of this year, has three elements.

1. *R&D Cooperation.* Both countries intend to leverage existing bilateral consultative mechanisms to advance research and development for next generation biofuels. A key step in this regard took place two weeks ago, when a delegation of 18 Brazilian biofuel scientists visited their counterparts at U.S. laboratories, including USDA National Center for Agricultural Utilization Research (NCAUR), National Renewable Energy Laboratory (NREL), and Lawrence Berkeley National Laboratory (LBNL). In November, we expect a delegation of U.S. scientists to visit Brazilian research laboratories. Following this exchange, a cooperative work plan will be developed and implemented.
2. *Third Country Cooperation.* Beginning with Central America and the Caribbean, Brazil and the U.S. are seeking to bring the benefits of biofuels our hemispheric neighbors. President Lula's recent visit to Honduras, Nicaragua, Panama, Jamaica, and Mexico included cooperation in biofuels. In all these countries, the Brazilian government committed to sharing ethanol technology and promoting biofuel investments, for either domestic electricity generation and ethanol exports. Moreover, President Lula's visit confirms the MOU's vision that third country cooperation can be expanded.
3. *Global Standards.* Working bilaterally, via an existing cooperation effort between the U.S. National Institute of Standards and Technology (NIST) and its Brazilian counterpart INMETRO, and multilaterally via the International Biofuels Forum (a joint United Nations project that also includes China, India, South Africa, and the European Commission), Brazil and the U.S. are committed to establishing global standards and codes for biofuels. We are optimistic about the efforts to harmonize technical standards, which will help further unleash the use of biofuels such as ethanol.

The Bush-Lula MOU on Biofuels is a very good start to deepen the cooperation between our two countries, particularly in an area of mutual interest and significant economic potential. As this Committee and Administration officials have stated, this is an area of "strategic confluence of interests" that can be a "transformative force" in the region. The Brazilian ethanol industry wholeheartedly welcomes this effort and seeks to be an active part of this process.

The MOU, however, should not be the limit for our ambitions. As Senator Lugar outlined in his recent public statements and in legislation he has proposed ("United States-Brazil Energy Cooperation Pact" and the "Energy Diplomacy and Security Act," S. 1007), both governments can and should expand the MOU to include, among other efforts, a joint program of investments, training and research to build biofuels production capabilities and expand trade throughout our hemisphere and beyond. I hope this Committee will consider supporting efforts that build on the MOU structure as well as to realign our diplomatic priorities to address the new geopolitics of energy security.

The Brazilian ethanol industry is committed to participating and supporting this bilateral cooperation. In fact, my presence here today is part of a new effort to present the Brazilian industry's views directly and begin a process of more active engagement in the United States. The Brazilian ethanol industry seeks to expand the reach of biofuels not just in Brazil but also worldwide. Our specific objective is

making ethanol a global commodity, complementary with other biofuels, including those here in the United States. Together we can expand production in a sustainable manner and collaborate to increase opportunities for and acceptability of biofuels.

CONCLUSION: MAKING THE AMERICAS SAFER

Last week, members of this committee and your colleagues from the Senate participated in two lengthy hearings about the situation in Iraq. One question, by Senator John Warner, struck me as relevant to our discussion today. Are our actions making America safer?

Diversifying America's fuel supply with biofuels can and will make not just America, but also our hemisphere, more secure. Our choices today can strengthen our democratic allies and reduce our emissions of greenhouse gases while creating jobs and reducing inequalities. Biofuels can make the Americas stronger.

Thank you, Mr. Chairman and committee members, for the opportunity to share my views today. I stand ready to answer any questions you may have and look forward to the opportunity of working together to strengthen our hemispheric dialogue.

Mr. ENGEL. I thank you, Mr. Velasco.
Mr. Smith.

STATEMENT OF MR. MARK SMITH, MANAGING DIRECTOR FOR WESTERN HEMISPHERE AFFAIRS, U.S. CHAMBER OF COMMERCE

Mr. SMITH. Chairman Engel, Ranking Member Burton, and members of the subcommittee, thank you so much for the opportunity to contribute to this important hearing today. I am speaking on behalf of the U.S. Chamber and the Brazil-U.S. Business Council. Our member companies are active corporate citizens in both countries, and play a leading role in the over \$45 billion worth of trade flows that go between our two countries. The Chamber and the Council have been working over the last several years to highlight the need to undergird the impressive level of inter-ministerial dialogue and the quality of the personal relationship between our two presidents, with a strategy focused on elevating global, regional and bilateral cooperation in the military, strategic, diplomatic, and commercial arenas.

We have observed with interest the work that is being done between India and the United States on the civil nuclear issue and the strategic economic dialogue with China, and wonder whether there might be opportunities that we are missing with Brazil. Since the collapse of the Free Trade Area of the Americas negotiations, both countries have shifted the focus of their commercial policy agenda elsewhere. For example, Brazil has decided to make the next year the year of Asia.

Recently, Brazil linked a limited trade deal with India, and has been courting actively Chinese trade and investment. In fact this year, China will be number two trade partner with Brazil, eclipsing Argentina. The U.S. is focused on cementing significant trade deals with its partners in the hemisphere, and hopefully, with the passage of pending FTAs in the region, bringing together a free trade zone throughout the entire Pacific coast of the Americas, except for Ecuador.

Increasingly, Brazil is looking at the evolution of the United States trading block with Latin America from without. We believe this situation is not in the long-term interests of either the United States or Brazil. Given the lack of progress on the WTO Doha Round, the stalling of the FTAA, and the lack of any real discus-

sion of a bilateral trade deal, Brazil's participation in the GSP program has become a focus of the bilateral discussions. The Chamber has been a strong proponent of GSP since its inception. Our support is based upon the positive economic impact of the program for our member companies and for U.S. competitiveness. In fact, most of Brazilian exports under the GSP program are inputs that are used in final products which are assembled here in this country and exported elsewhere.

So put very simply, the GSP program allows our exports to be more competitive globally. While we strongly supported the extension of GSP during last year's discussion, we do believe that like any successful long term program, there is a benefit to reviewing it and to ensure that it is having its desired effect. Given that Brazil is the 12th largest economy in the world, but also one of the most unequal in terms of development, there is a legitimate need to discuss a way forward that continues to provide the same kind of mutual benefits, but focuses the support on the most impoverished areas of the country and priority sectors of the economy. One of the key factors in determining a country's eligibility for GSP is its record on intellectual property protection. Here, Brazil's performance has been decidedly mixed. On the antipiracy and counterfeiting side, Brazil has taken an impressive step forward with a public-private committee that has set an agenda of 99 different action items, and proceeded to implement them.

While much remains to be done on this front, the Chamber has been consistently impressed with the seriousness with which the Brazilian Government is taking this fight against contraband. The downgrading of Brazil on the USTR Special 301 list is a direct result of this progress. Unfortunately, the situation in the patent area cannot be described in such an upbeat manner. Brazil's recent decision to issue the second compulsory license for an HIV/AIDS drug under the TRIPS agreement has been a significant setback, particularly due to the manner in which the decision was made. While Brazil has decided not to pursue similar tactics in following price negotiations, it is important to note that Brazil's action has raised quite a bit of concern in the investor community. We believe that in examining the program moving forward, some serious thought needs to be put into how we can more effectively use the leverage of GSP to ensure protection for U.S. innovative industries, while ensuring that the benefits for other industries are preserved. Despite the lack of bilateral or regional trade negotiations, the business community has adopted a very practical strategy of focusing on attainable goals.

Our two main foci in this area are a bilateral tax treaty and work in the trade facilitation area. In some Brazilian ports, it is actually slower to move product than it is in some of the ports in Haiti. And we don't think that is something that either economy or either private sector benefits from.

In the energy area, there has been a whole lot of high level discussion about the biofuels area. We think, obviously, the MOU is an important step forward. It remains to be seen what sort of concrete result that will actually have. However, one thing is clear, that we do believe that there is a lot of good to more cooperation, particularly in the technical area, with standards and also in shar-

ing of technology, as well as Brazil and the United States supplying one another's market in periods of peak demand, as they do today. I would like to note that despite the sexiness of the biofuels area, we do still depend upon petroleum. And in this area, Brazil has become a net petroleum exporter, and United States energy companies are providing an important vehicle to expand Brazil's capacity.

And so I think to the extent that we include traditional sources, as well as alternative sources in the energy strategic partnership that we envision, I think both of us will benefit. Let us also not forget about the bagasse-based, wind, or small hydro projects that U.S. companies are financing in the country. Finally, I would like to, again, congratulate the committee on having this hearing. I think the fundamental question from our perspective is: Are we willing to further elevate the level of dialogue and help tease out a more significant and long-lasting strategic relationship that builds off the intense contacts at every level between our two private sectors and governments? We believe that the benefits of this kind of outreach will far outweigh the costs for both sides. Thank you very much.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF MR. MARK SMITH, MANAGING DIRECTOR FOR WESTERN
HEMISPHERE AFFAIRS, U.S. CHAMBER OF COMMERCE

Mr. Chairman Engel, Ranking Member Burton and members of the Subcommittee, thank you for the opportunity to contribute to this important hearing about the status of Brazil-U.S. relations. My name is Mark Smith, and I am the Managing Director of Western Hemisphere Affairs of the U.S. Chamber of Commerce and Executive Vice President of the U.S. Section of the Brazil-U.S. Business Council. In my capacity at the Brazil Council, I represent 75 of the largest U.S. direct investors in Brazil. These companies are nine of Brazil's 20 largest exporters and employ over 218,000 workers directly. Our member companies are active corporate citizens in both countries and play a leading role in the over \$45 billion in bilateral trade that flows between us.

The Council has been working over the last several years to highlight the need to undergird the impressive level of inter-Ministerial dialogue and quality of the relationship between our two Presidents with a strategy focused on elevating global, regional and bilateral cooperation in the military, strategic, diplomatic and commercial arenas. We have observed, with interest, the work that is being done between India and the U.S. on the civil nuclear issue and the strategic economic dialogue with China and wondered whether there might be opportunities that we are missing with Brazil. Since the collapse of the Free Trade Area of the Americas (FTAA) negotiations, much of which came down to failure to find common ground between two very distinct views of what a trade agreement should include, both countries have shifted the focus of their commercial policy agenda elsewhere. For example, Brazil has decided to make next year the year of Asia, having also failed to move forward in trade talks with the European Union. Additionally, Brazil inked a limited trade deal with India and has been courting Chinese trade and investment. Last year, China was Brazil's 2nd largest trading partner, eclipsing Argentina.

The U.S. has focused on cementing significant trade deals with its partners in the Hemisphere, adding DR-CAFTA and, hopefully Peru to Canada, Mexico and Chile, effectively bringing together a free trade zone throughout the entire Pacific coast of the Americas. Increasingly, Brazil is looking at the evolution of a U.S. trading block with Latin American from without. We believe this situation is not in the long-term interest of either the U.S. or Brazil. As trade links built through long-term preferential access to the U.S. spur new export-oriented investment in the DR-CAFTA countries, Brazil will find itself losing market share in areas such as textiles, footwear, tropical fruits, etc. In addition, the strength of the Brazilian Real is already leading growth in U.S. exports into Brazil to eclipse import growth for the first time in many years.

Given the lack of progress in the WTO Doha Round, the stalling of the FTAA, and the lack of any real discussion of a bilateral trade deal, Brazil's participation

in the Generalized System of Preferences (GSP) program has become a focus of bilateral discussion. The Chamber has been a strong proponent of GSP since its inception. During the GSP discussion at the end of the last year, the Chamber and the Council played a leading role in helping secure the extension of Brazil's benefits under the program. Our support was based on the positive economic impact of the program for the Council's member companies. Most of Brazilian exports under the GSP program are inputs that are used in a final product that is assembled in the U.S. and exported elsewhere in the world. So, in essence, lowering the price of Brazilian inputs makes U.S. exports more competitive. Indeed, this is the case in the automotive industry, which accounts for the majority of Brazilian imports under the program.

While we strongly supported the extension of GSP during last year's discussion, we do believe that, like any successful longtime program, there is a benefit to reviewing the program to ensure that it is having its desired effect. Given that Brazil is the 12th largest economy in the world, but also one of the most unequal in terms of development with areas as poor as Haiti, there is a legitimate need to discuss a way forward that continues to provide the same mutual benefits, but that also focuses support on the most impoverished areas of the country or sectors of the economy.

One of the key factors determining a country's eligibility for the GSP program is its record in the intellectual property rights area. Here, Brazil's performance has been decidedly mixed. On the anti-counterfeiting and piracy side, Brazil has taken an impressive step forward with a public-private committee that has brought government and industry together to implement 99 action items. While much remains to be done on this front, the Chamber has been working hand-in-hand with the Vice Minister of Justice and his team, as well as the Brazilian customs and law enforcement authorities, and we've been consistently impressed with the seriousness with which they are taking the fight against contraband. It is also important to mention the tremendous partnership that the Chamber has developed with key business entities in the country, including the Brazilian National Confederation of Industries and its affiliated state-level organizations in São Paulo, Rio de Janeiro, Belo Horizonte and Pernambuco. The downgrading of Brazil on USTR's annual Special 301 Intellectual Property Rights Watch list was a direct result of a great deal of positive work on the national and bilateral front in the anti-piracy and counterfeiting area.

Unfortunately, the situation in the patent area cannot be described in such an upbeat manner. Brazil's recent decision to follow Thailand and issue the second compulsory license for an HIV-AIDS drug under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement has been a significant setback, particularly due to the manner in which the decision was made. We are particularly concerned with the low quality of the dialogue between the pharmaceutical industry and the government. While Brazil has decided not to pursue similar tactics in following price negotiations, it is important to note that Brazil's action has raised concern in the investor community. We believe that in examining the program moving forward, some serious thought needs to be put into how we can more effectively use the leverage of GSP to ensure protection for innovative U.S. industries, while ensuring that the benefits of the program for other industries are preserved.

In addition, we firmly believe that there is a need for a radical rethinking of the relationship between the industry and the government in the human health area. Unfortunately, to date, the discussions have been solely focused on price, missing significant opportunities for mutually beneficial partnerships between government and the industry to meet the real challenge: ensuring access to vital medicines throughout the country. Although the Brazilian government has succeeded in lowering the cost of medicine and thus the drag on its own treasury from its world-renowned HIV-AIDS program, access to medicine in many key areas has remained relatively static. We firmly believe there is an opportunity for the industry to develop a multifaceted dialogue with the government focused on investment, technology transfer, regional export opportunities, expanding access, and lowering prices by harnessing economies of scale. In summary, there is a win-win-win within reach.

Despite the lack of bilateral or regional trade negotiations, the business community has adopted a very practical strategy of focusing on attainable goals that will move the needle in terms of bilateral trade and investment, particularly in the tax and foreign exchange areas. One of these goals has been the finalization of a Brazil-U.S. Tax Treaty. Indeed, Brazil is the largest economy with which we do not have a bilateral tax treaty. Given that the U.S. is the largest investor in Brazil and that Brazil is rapidly increasing its direct investment in this country, we believe that a tax treaty would be an important catalyst of new investment and trade. During President Lula's meeting with President Bush, progress was made toward this goal with the signing of a Tax Information Exchange Agreement (TIEA). There is still

a great deal of work to be done on the technical level, but we hope that support for this important objective at the political level in both countries will continue to grow.

One of the other areas on which we have focused is speeding the movement of goods and people between both countries. Currently, the Council is working closely with the U.S. Department of Commerce and their colleagues at the Brazilian Ministry of Development to help the Brazilian customs authorities implement an electronic system for the clearance of express shipments. While this may seem like a minor matter, speeding the clearance of these packages through customs will allow Brazilian and American companies alike to implement just-in-time supply chains, which depend on the ability to quickly receive key parts, many of which are delivered via express delivery services.

In the energy area, there has been a lot of high-level discussion about biofuels, and both countries have signaled their intent to work together to develop markets for ethanol in the region and standards issues. Whether these initiatives will bear fruit is yet to be seen. One thing is for sure, though: there is much more that both countries can do to share technology—particularly in the cellulosic area—develop new markets abroad and help top off one another at peak demand periods. At the end of the day, we believe that anything that can be done to expand the biofuels pie around the world and in the United States will benefit players from both sides.

The discussion of biofuels has garnered all of the attention, but there are other interesting areas where the U.S. and Brazil are working together that are worth noting. U.S. companies are playing a key role in helping expand Brazilian oil production capacity. Last year, Brazil became a net petroleum exporter. Given events in Venezuela and the situation in the Middle East, working together to increase Brazil's ability to export petroleum is in both countries' interest. Finally, in the area of electrical energy, U.S. companies are beginning to contemplate new investments in hydro, thermal and bagasse-based projects. Brazil faces the challenge of reducing its dependence on Bolivian natural gas, and thus there is a lot of room for mutually beneficial partnership in this area.

In conclusion, I would like to congratulate the committee for holding this hearing on the bilateral relationship and for the opportunity to contribute our perspective to the debate. We firmly believe that despite the bumps in the road that constitute a part of any significant commercial relationship, the outlook for the Brazil-U.S. commercial relationship is quite positive. The question is: are we willing to further elevate the level of dialogue and help tease out a more significant and long lasting strategic relationship that builds off of the intense contacts at every level between the two private sectors and governments? We believe that the benefits of this kind of outreach will far outweigh the costs for both sides.

Mr. ENGEL. Thank you very much, Mr. Smith. Now let me ask the first question, and anyone who cares to answer this can answer it. Do we have any tangible results yet from the United States-Brazil MOU? It has been in the first months. How successful has it been? Or is it too early to make any kind of judgment like that?

Mr. VELASCO. Congressman, I think the results so far have been a significant increase in dialogue. I noted the scientists, the 20 Brazilian scientists who were here last week or 2 weeks ago. A group of scientists is going down to Brazil. And out of that they will work out a plan for cooperative research. On the feasibility studies, the two governments I think have agreed to a format, and in fact, I believe have hired—and we will have to ask the State Department here—have hired the appropriate consultants to do these feasibility studies in the country. Where I would perhaps suggest that there could be a lot more progress is in the involvement—and I think my colleagues here will also agree—of the private sector in these discussions. And I say private sector broadly speaking, not just business. I am referring to NGOs, trade associations like ours as well as the Chamber, and including labor as well. These are issues that need to be aired out. And it would be important not to have just a discussion between two governments.

Mr. ENGEL. Anyone else? Mr. Sotero?

Mr. SOTERO. Just, Mr. Chairman, to note that I think the memorandum of understanding has given also some dynamism, Brazil and the United States working together with other countries at the multilateral level in order to establish the international standard for ethanol. This is something that is going on at the multilateral level I believe on the U.N. There is a group of countries, led by Brazil and the United States, including China and others, that is working actively. And the idea would be to get the outlines of a new ethanol standard presented sometime later this year.

Mr. ENGEL. Thank you. Mr. Gacek?

Mr. GACEK. Yes, Chairman Engel, just actually to footnote what Mr. Velasco has said, we certainly consider it very, very important that there be labor, environmentalist, and civil society representation with regard to this memorandum of understanding. And as a matter of fact, both the AFL-CIO and the Brazilian labor movement are going to be articulating more and more that this is a very, very important position, and that certainly our input, along with our alliances with environmentalist organizations in both countries, should be incorporated. And we expect to actually have a protocol statement with the Brazilian CUT, which is the largest labor central in Brazil, on precisely this subject in November.

Mr. ENGEL. Thank you. Mr. Smith, do you have a comment?

Mr. SMITH. Yeah. I think our perspective is that the importance of this probably goes beyond the actual results that you will get on the ground of this first MOU. Quite frankly, the goals are quite modest. You know, having a couple scientists go from one country to another is great, and certainly we applaud it, we think it is a good step in the right direction, but if you look at the enormity of the issue that we are dealing with in terms of how our two countries can partner together in putting together an energy strategy, there is a lot more opportunity, I think, to be mined. Let us just put it that way.

So I think the real importance of the MOU was to send a political signal in both countries that this was something that was important, and hopefully inspired some strategic thinkers on both sides of the relationship to really kind of get busy and come up with some more concrete things that can be built off of this foundation.

Mr. ENGEL. Let me ask a follow-up question to that, and then I will turn it over to Mr. Burton for questions. We are obviously, in signing this agreement, and all indications are the United States seems prepared for a closer, more strategic relationship with Brazil, is Brazil ready for that relationship? What elements in Brazil are most open to a closer relationship? And are there any elements which might not support a closer relationship? Anyone like to try a stab at that? I would be interested.

Mr. SOTERO. Well, Mr. Chairman, Brazil, like the United States, is a continental country. We have been a very insular country for many years. Our history of opening of our economy is quite recent, dates from maybe less than 20 years. I believe that the internal debate in Brazil has been precisely on this issue. As I mentioned in my statement, I believe the emergence of regimes that were proposing a returning to the 50s kind of model, the target development you had, had helped focus, sharpen this debate in Brazil. And we

see now in the Brazilian Government the need to keep a stable and expanding economy. It is very clear in Brazil that we have to continue to reform our economy. It is in our hands to make it more efficient. It is a very difficult issue, similar to what you have here in the United States, reforming Social Security, and, in our case, also reforming labor laws. These are all being debated in Brazil. I believe the leaders of this debate are right now in the business sector. They are starting to appear also in the academic world. And what is important to me is that it is no longer taboo in Brazil to talk about these things.

The idea of being closer to the developed world is very much present. And we know that we will win or lose this battle probably in the way we gain competitiveness in the world. That is why I believe it is important to, as I said, for the United States and Brazil at this moment to engage at all levels.

Mr. ENGEL. Thank you. Anyone else? Mr. Smith?

Mr. SMITH. I would just like to weigh in. I think what we find is that the elements of particularly the private sector have been one of the most forward leaning groups in Brazil in terms of strengthening the bilateral relationship at all levels. I think there is a certain degree of frustration with the lack of progress on some of the other trade initiatives that have been pursued. I would say that the FTAA should be included amongst those. Growing interest and discussion about potentially engaging the United States on a bilateral context. And so certainly the private sector has been leading a lot of the voices in Brazil in terms of further engagement. So I think to the extent that we can offer interesting opportunities to expand that dialogue, the overall relationship will benefit.

Mr. ENGEL. Mr. Gacek, let me just ask you and then I will turn it over to Mr. Burton, and I promise, Brazilian labor, the CUT, seems hesitant with the relationship with the United States, but President Lula, who as you know, is from a labor movement, supports the relationship. Can you comment on that?

Mr. GACEK. Yes, certainly, Chairman Engel. With regard to the CUT itself with regard to relationships, there is a question, I think, of the CUT having very critical positions with regard to governments and particular administrations, as we all do in democratic societies. But the issues of relationships between our societies and stronger civil society relations are not in question at all. In fact, I was actually going to follow up just on what Mr. Smith was saying, that with regard to these relationships between our civil societies, we have actually seen, I think, within the last decade—my experience with the labor movement—more of an interest on all-policy issues, including trade, including sustainable development, and, I might add, on a very, very important issue, with the growing Brazilian community here in the United States. And I do not want to get into the controversy of immigration reform or anything of that sort, but there is a reality of probably 1 million Brazilians living and working in this country. And the question of their labor rights being effectively enforced. And the Brazilian labor movement, including the CUT, has taken a very great interest in that.

Mr. ENGEL. Thank you. Mr. Burton?

Mr. BURTON. Thank you, Mr. Chairman. I think I am going to roll my questions into one big one. So you guys can write this down

if you don't mind. First of all, Mr. Sotero was talking about trade concerns. I think you pretty much answered where we are on a possible free trade agreement right now. This slavery thing really bothers me. And I think Mr. Gacek said that there is a 50 percent reduction in child labor from 1995 to 2005, and that there are 5.1 million children in labor now. And I would also like to know why that number is so high, what the age is on those kids before they can start, or if there is any age. And I would like to know on the forced labor or slave labor, whatever you want to call it, how many people we are talking about there and what is being done to move away from that.

You said, Mr. Velasco, that sugarcane being used in the ethanol has reduced to a very large degree the cost per barrel of oil—or per barrel compared to other countries to \$40 a barrel. I think that is what you said. And I would like to know how in the world the ethanol would get you that low. I didn't know Henry Ford used ethanol. You will have to explain that one to me as well. Were you around? Anyhow, I don't know where we are as far as trading with Brazil, but you said China is second. I presume Argentina is third. And I don't know where we rank.

Mr. SMITH. We are number one.

Mr. BURTON. We are number one? That is what I thought. Okay. Well, we would like to stay number one, and we would like to find ways to expand our trade with Brazil. And I hope that we can get the leadership in both countries to start knocking heads so we can get an FTA for a lot of reasons, one of which is stability not only in South America, but Central America as well. I am very concerned. And I also want to ask about whether or not Mr. Chavez is going to be successful in becoming part of Mercosur. So there are a few things I am concerned about, and you can take them in any order you want.

Mr. SOTERO. Mr. Burton, I would like to start. You mentioned trade. Here is an area where I believe that the two countries would have to be daring if we are really going to stop talking about strategic partnership and do it, make it a reality. For instance, let me call your attention to something that for us in Brazil has been difficult to understand.

The fact that the United States did not, could not improve its Doha offer of a ceiling subsidy for agricultural below \$17 billion annually at a moment when rising commodity prices have dramatically reduced the amount of subsidies the U.S. Treasury is actually paying. It was \$11 billion last year, it will be probably \$9 billion this year.

That movement probably is still possible, should be made, and would make Brazil move on the other side. Because we know in Brazil we have to open, continue to open our economy. We have to continue to lower the tariffs from goods, lower the barriers for services. And also, as Mr. Smith mentioned, have a better regime for intellectual protection. So this is an issue that we have to address. It is going to require political courage on both sides. If you are thinking about strategic relationships, that is the issue. Just one little remark, brief remark on child labor.

Yesterday at the Wilson Center, we had an opportunity to present, to host a presentation of a report on enforcement of work-

ers rights, including the issue of child labor and forced labor in four countries, one of them Brazil. And I would recommend that your staff make that report available to you. We can help. Because it was very important, the way they report very frankly presents what has been happening, the progress made, what needs to be done.

Mr. GACEK. Yes, in response to Mr. Burton, and this will be a rather fulsome response, but I hope you will bear with me with regard to that. First with regard to the child labor issue, yes, this 5.1 million Brazilian children statistic actually covers those children who have been found to be working between the ages of 5 and 17.

Mr. BURTON. 5 years old?

Mr. GACEK. 5 to 17, that is right.

Mr. BURTON. You know a 5-year-old child is working?

Mr. GACEK. Yes, we find tragically, as you find in many parts of the world, that with regard to families working that—you will find this in agriculture, but not just in agriculture—that you have the situation. I should point out, just to try to be as objective as possible, that there is, the minimum working age in Brazil is 16. But there cannot be—anyone who is working between the ages of 16 and 18 cannot be performing any kind of hazardous work. This is in conformity with Brazilian law, but also with the conventions of the ILO, which have been ratified.

Also, you have to point out that—it is important to point out that apprenticeships are permitted between ages 12 and 14 in Brazil. And so that needs to be factored within the statistic as well. Now, there is no question much more needs to be done. And we certainly, within the AFL-CIO and the international labor movement, say this is a problem that screams for solution. But I also think it would be, it is very fair to point out that with regard to governmental and civil society initiatives that have been taken by Brazil, that there are some of the most innovative strategies which have been developed in Brazil.

I have already mentioned the family stipend program, which has been expanded. But also what has developed in Brazil is you found from 1995 until 2005, and it is continuing as well, although also the question is funding and assistance from the international community.

So I really want to make that point. And there, I think, is a role for the ILO, a continued role for the ILO, for AID, and those organizations, including our own Solidarity Center, which have been able to access funding from government donor sources in order to work with the Brazilian trade union movement plays a very important role. But part of the 50 percent reduction in Brazilian child labor between 1995 and 2005 was due to civil society initiatives. And there is an entire National Forum on the Prevention and Eradication of Child Labor established in 1994 which brought business and labor together and had a multiplier effect.

The trade union movement became very educated on the issue and had to overcome a certain stereotype which had existed due to a certain elite false consciousness within Brazilian society for years, which was child labor could be rehabilitating, particularly to the poor. That has been a very, very difficult cultural barrier to overcome. But there was tremendous progress which was made in

the last decade. There were trade unions that were able to educate their own members, and actually developed a multiplier effect in terms of negotiating anti-child labor clauses in collective bargaining agreements.

In a project that I happen to know personally, known as Projeto Eremim of the Osasco Metalworkers in Greater Sao Paulo provided a system of cooperatives for at risk parents who would have at risk children falling into the labor market. But I mentioned this in my prepared statement. I think it is very, very important.

Mr. ENGEL. Let me ask you just to wrap up. I want to give Mr. Payne a chance to ask some questions.

Mr. GACEK. Okay. Okay. With regard to forced labor, a number of other points that I wanted to make. But there are—with regard to this, there is very, very important to see that the mobile units are strengthened effectively, that there are even more, more resources that are brought to them. There is a very, very important issue, which I think I neglected to mention. The constitutional amendment that has been pending for 10 years in Brazil, and now the Lula administration says it has to pass, which would provide for expropriation of lands where child labor has been practiced. And also with a provision that those—that that expropriation then go to the benefit of the victims. This would do a great deal to the problem of recidivism with regard to forced labor.

Because the Labor Ministry has established of those people who have been freed over the last 10 years, there is about a 40 percent recidivism rate. In other words, they have been freed again and again.

Mr. ENGEL. Thank you very much. Mr. Payne?

Mr. PAYNE. Thank you very much. And unfortunately I have not been able to hear the testimony, and so therefore I will be relatively brief. Brazil had a goal of trying to, I think, halve the abject poverty by 2000, and for some goal of dealing with its general population. Are any of you aware of those proclamations and what it was and what it intends to do?

Mr. SOTERO. It is to reduce the level of poverty by half of what it was I believe in 1990. We are—Brazil is on target. Brazil is on target under the previous government because of the end of inflation, the beginning of income transfer programs. This current government even more aggressively. The number of people that live in absolute poverty in Brazil has dropped dramatically. The question now is about sustainability. It is not to create another type of dependency on state funds. Therefore we need to liberate, to free the energies of our economy through a series of reforms and to give these people employment. We are starting to make progress. Another crucial area for us is education. We have universal education at the primary level in Brazil, but the quality is still lacking. So we have to continue to work on all those fronts. Those problems are all in front of us. And you know, as a former correspondent, as a journalist, I wanted to tell you also that the press in Brazil is free, the press in Brazil does its job in terms of keeping those issues in the public eye all the time.

Mr. PAYNE. Thank you very much. I was impressed by several of the initiatives by the President. Last, there was a new initiative to attempt to increase the number of students in higher education in

Brazil recently. Could you tell me about that program? That is an affirmative action type program?

Mr. SOTERO. Yeah, we have affirmative action programs. They have been controversial, as they were in the United States actually. We have a debate now going on because we tried, there is a proposed Racial Equality Act that passed the Senate, stopped in the House, and apparently is not going anywhere. And it is a very difficult debate because in Brazil, unlike the United States, we never had the Jim Crow laws. There was never mandated legal discrimination in Brazil. So this issue of race in Brazil is very difficult. But again, it is an issue the former President Fernando Cardoso having studied this, told the country we have this problem, let us face it. President Lula continues along the same lines. And we are in this debate now.

Mr. PAYNE. Very well. Thank you very much. We will certainly follow that debate. And I intend to hopefully visit Brazil sometime in the near future. So I look forward to that. My first trip to Brazil was in 1968, so it was a little bit different then. Thank you.

Mr. ENGEL. Well, thank you. We have to be out in just a few minutes, but I have a couple of follow-up questions I would like to ask. And if I could ask the witnesses to be as brief as possible, I would appreciate it. Let me ask, Mr. Velasco, let me ask you this question: The United States tariff on ethanol, 54 cent tariff on ethanol, is that an impediment to further energy cooperation? And on the other side, some have argued that lifting the ethanol tariff immediately could be disastrous for Brazil since it doesn't currently have the capacity to export large amounts of ethanol to the United States. Do you agree? Is there anything you want to say about that tax?

Mr. VELASCO. Sure. And if I may, let me try to answer also the question from Congressman Burton in that context, related to the tariff and also to the price. I mean Brazilian ethanol today, sugarcane ethanol costs about or is sold at the market at about \$0.70 a gallon. And we get to the issue that Congressman Burton raised; if oil prices went as low as \$40 a barrel, you could still make money out of sugarcane ethanol in Brazil. It is that competitive.

Not the same case with corn-based ethanol. Corn-based ethanol today is sold at \$1.50 a gallon. So you can have some reduction in the price per barrel of oil, but not that much. That gets us to this issue of tariffs as well as subsidies. We believe in open markets. We would like to see the tariff reduced because of that. We all understand that today the tariff that is in effect until 2009. If it is reduced, Brazil couldn't supply any demand. And there could be, some would argue, a disruption in the Brazilian market.

I think being realistic here, what we see is a chance to focus on addressing that tariff after 2009. And I am hopeful that by, because of this MOU, we will be able to talk about reducing that. But we have to be practical here. The tariff, in the United States, it is offset by a tax credit to the blenders of ethanol with gasoline. Removing the tariff will create a shortfall in U.S. Treasury.

We understand the dynamics. And that is why we are trying to have a dialogue to try to figure out how best to address both the tariff, as well as the domestic impacts of this policy. Dialogue, and I think particularly with the industry, would be important.

Let me just say on the issue of the Model T, Ford Motor Company swears by it. Their car was designed originally for ethanol. And because oil was so cheap, they decided to move over to gasoline instead. I have a picture here, which I would be glad to give you, of a Brazilian car; I don't even know which one, in 1925, that was already running on a blend of ethanol. There is a long history here.

Mr. ENGEL. Let me ask a question about the environment, because that is something we haven't touched on, and it is very, very important. We always hear about the deforestation of the Amazon, how the Amazon is being cut down, and people are using it for other purposes. Some have said to me that the increased production of sugarcane for ethanol in Brazil has had a negative impact on the country's environment. And their argument is that sugarcane has displaced cattle into the Brazilian Cerrado and the Amazon and caused environmental degradation. Is this accurate or is it overstating the case?

Mr. VELASCO. I think it is more than overstating the case. It is just not accurate. First, the issue of the Amazon, sugarcane does not grow well in very humid regions. The Amazon is extremely wet. It doesn't grow well. That is just a fact of life. The argument many people have made is well, maybe sugarcane won't be grown in the Amazon, but it will push other crops further north, out of the southeastern regions of Brazil into the northern parts of Brazil, where the Amazon and other important ecosystems, like the Cerrado, are located.

The issue there, the only thing we have to show right now is that it does not—the facts show otherwise. In the State of Sao Paulo, where my trade association has its membership, what we have seen is a decrease in the land use for cattle and soybeans because of an increase in ethanol production. But we have seen productivity gains not just in ethanol production, but also in cattle and soybeans. In other words, in Sao Paulo a few years ago you had—for every hectare of land, you had about 1 head of cattle. Today we have 1.4 head of cattle in every hectare of land. If we could continue that productivity gain in Brazil, what we would be able to do with just that increase in land for ethanol, without going into any other additional land, is to be able to supply the 36 billion gallons of ethanol that the current energy bill making its way through the Congress demands for the United States. So could Brazil be ready and tackle—you know, provide ethanol to the United States in years to come? Yes. Could we do it without damaging the environment? Yes, we can. It has to do with abundant land, but more importantly, productivity.

And then finally, I would just say, and I think on this, Mr. Smith and others will agree with this, because of logistics problems in Brazil, planting sugarcane or really any other crop in very remote regions of the country, just you lose money. Let us just be candid that way. You lose about 20 percent of your soybean production if you are taking it out of the interior of Brazil and taking it to a port just because of the bad quality of the roads. So if Brazil is successful with infrastructure improvements they need to make sure that they do it wisely so as not to create incentives for production of agriculture in remote areas.

Mr. ENGEL. Thank you. I had a bunch of more questions, but I am only going to ask just one and then I am going to adjourn the hearing. Mr. Gacek, I won't ask you the question, because you really answered what I wanted to ask about the reenslavement of people. But I want to really ask Mr. Burton's question, which he had mentioned and wasn't responded to.

Mr. Burton often comes to the hearings and talks about Hugo Chavez and his view of the world and vis-à-vis the view we have here. And I want to ask you a question about Venezuela. Probably Mr. Sotero would be the best to answer that and follow up with what Mr. Burton had mentioned about Mercosur. When questioned about Brazil's relationship with Venezuela, President Lula said he won't let the external politics of the region be contaminated by ideological differences with Venezuela, and that he prefers, and this is a quote, "to leave ideological orientation to the side and value the desire for regional integration."

So I would like, Mr. Sotero, if you can tell me what is your assessment of Brazil's relationship with Venezuela? And does the Brazilian Congress and the Brazilian population, more broadly, agree with President Lula's approach to foreign relations with Venezuela? And then the Mercosur question. In December 2005, Mercosur agreed to the accession of Venezuela as a full member, and Venezuela's accession must be approved by Mercosur member state legislatures, including that of Brazil. In July, President Chavez told Mercosur nations that they must approve Venezuela's membership to the trade bloc within 3 months or he would withdraw the request to join. So what do you think will happen in the Brazilian Legislature?

If the Brazil congress fails to quickly approve Venezuela's membership, do you foresee a rift in Brazilian-Venezuelan relations? I have asked a bunch of questions, but it pertains to Brazil and Venezuela, and I am all ears.

Mr. SOTERO. Well, sir, I will answer it this way. Venezuela is a neighbor of ours. We have interests in Venezuela. Brazilian companies have business in Venezuela. We will not—we will not, I am sure about that, enter in the game that Mr. Chavez wants to play from time to time with everybody and make this a very tense relationship. In that, President Lula is not very different from his predecessor. I think that we will continue to have a cordial, but right now it is much cooler relationship, because Mr. Chavez, who, by the way, as President Lula said that more than once, governs the only country in South America that does not need an FTAA, because he already has one through oil that comes here to the United States tax-free. Oil is 85 percent of his exports. And he started a campaign against Brazilian ethanol for reasons that we still don't understand, because we were helping him produce ethanol in Venezuela.

So it is a relationship that we manage. We prefer to have our neighbors close to us in understanding. This is our temperament. This is the way we are. Also regarding Mercosur, yes, it is in that spirit that the inclusion of Venezuela was considered. But Mr. Chavez said that, well, the Mercosur that he was thinking about was a Mercosur that would become a political body against imperialism and this and that. And that is not our interest. Mercosul has to

be—it is an economic body. It is a problematic economic body right now. And it is very much up in the air where that vote is going to go.

As you probably know, the Senate in Brazil at some point was very upset with what happened with the renewal of licenses to a television in Venezuela. And that became an issue. I would not be able to tell you. My guess is that somehow we are going to find a way—we may find a way to accommodate Venezuela as long as Mercosul does not become a sort of a political game for Chavez.

On the same point, Mr. Chavez created, announced the creation of a Bank of the South. And Brazil said, “Yes, we could maybe consider it.” But apparently the bank is going nowhere because Brazil will not join a bank that is created to play political footballs in South America. We want a bank to make money, to lend money. We are practical people in Brazil. And I think it is in that light you should try to see the relationship between Brazil and Venezuela. But again, we have been at peace with our neighbors for 130 years, and we want to keep it that way.

Mr. ENGEL. Well, I will let that be the last word. I want to thank all of our witnesses for excellent testimony. I know it was a great deal of help to me, and this obviously will not be the last hearing we will have on Brazil. And as I mentioned in my statement at the outset, that we intend to have the subcommittee and other interested colleagues visit Brazil in the not too distant future.

So I want to thank all of you for your excellent testimony, and the hearing is now adjourned.

[Whereupon, at 4:50 p.m., the subcommittee was adjourned.]

A P P E N D I X

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STATEMENT OF MR. WILLIAM PERRY, PRESIDENT, WILLIAM PERRY & ASSOCIATES

Chairman Engel, Ranking Member Burton and other distinguished members of the Subcommittee, it is a great honor to have been called upon to provide testimony at this hearing. And may I offer my congratulations to you all for the wisdom of having selected this important topic.

I have been closely involved with US-Brazilian relations for more than 35 years now—as an academic, from posts on the Senate Foreign Relations Committee and the National Security Council and as Senior Advisor to three Assistant Secretaries of State for Western Hemisphere Affairs—including during the critical time of the present Bush administration's outreach to the Lula government in the wake of its election in October of 2002. I am also at present working with the Inter-American Ethanol Commission.

Looking back over the sweep of that long period and at the critical juncture at which US relations with the Americas as a whole stand today, I am quite encouraged by the present state and future prospect of US-Brazilian relations. But, in order to appreciate where we are, it is necessary to understand where we have been.

As United States interests began to encompass the whole of the Americas and Brazil's republican government replaced its previous monarchy, toward the end of the 19th Century, the two countries promptly forged what has been termed an "unwritten alliance." Brazil was a somewhat awkward giant surrounded by Spanish-speaking neighbors with whom it had had difficult relations, including a number of border disputes. And the United States—at the time seeking to tame regional turbulence and organize an inter-American system in support of its new position on the wider global stage—found it an ideal regional partner. As a result, Washington tended to single Brazil out for special favor among all the other nations of this Hemisphere. And, despite occasional oscillations, Brazilian diplomacy was generally quite supportive of US policy—in the region and around the globe. By way of example, Brazil was the only Latin American country to send troops to fight on the allied side during World War II—in exchange for which the US helped build South America's first steel mill at Volta Redonda (near Rio de Janeiro) and substantially re-equipped the Brazilian military (partially as a counter-weight to Axis-leaning Argentina).

As "Third World" perspectives made their appearance during subsequent decades, it became fashionable in some Brazilian circles to criticize the seemingly patron-client tenor of this "special relationship." But Brazil was a quite underdeveloped country that would require a long time to realize its indubitably enormous potential. Thus, close association with the rising star of the United States made sense to most Brazilian governments in terms of basic national interests. And that relationship was maintained until Brazil began to emerge as an aspiring power in its own right during the 1960s and 70s. Unfortunately, the break—during the Carter administration, over military dominance of the Brazilian government at the time, human rights issues and Brazil's nuclear program—was a rather ugly one that was to take some time to heal.

A new paradigm in inter-American relations began to emerge in the 1980s—with region's general return to democracy, a wave of liberalizing economic reform (aimed at restoring growth after the region's mostly statist, import-substitution-based economic models had sunk into stagnation) and the end of the Cold War. In response, the Bush administration proposed the Enterprise for the Americas Initiative—which posited a free trade area of democratic nations stretching from Alaska to Tierra del Fuego (later to become known as the FTAA). And, as a first step, it began negotiations with Mexico to incorporate that nation into an accord already existing between

the United States and Canada (this tripartite pact eventually being denominated NAFTA).

Brazil returned to civilian government in 1985 and (after an aborted start during the 1990/92 period) began to liberalize its economy in earnest under President Fernando Henrique Cardoso (1995–2003). As a result the principle of FTAA began to make sense to some Brazilians—although others plainly disagreed or at least feared being submerged into an economic arrangement dominated by the US. But it was obvious that negotiations toward that end with an economy as large and sophisticated as that of Brazil was becoming would be a difficult, time-consuming proposition. And, in any event, after Fast-track Authority was allowed to lapse in 1994, it became clear that they would be a long time coming under the best of circumstances. So Brazilian diplomacy focused primarily on forging a Mercosul trade area (with Argentina, Paraguay and Uruguay) and eventually attracting the involvement of other South American countries—in the hope of both fomenting greater volumes of trade and creating a bloc big enough to negotiate from a stronger position with the United States, when and if that day ever came. But, even so, the Cardoso and Clinton administrations saw eye-to-eye on many matters and relations became quite normal again, if not always especially characterized by concrete cooperation.

By the end of the 1990's, however, it was becoming obvious that the near universal tide of regional optimism with respect to democracy, economic liberalization and an FTAA had begun to fade. In too many countries, incomplete, bungled or just plain corrupt liberalization efforts had soured much of public opinion. Social sacrifices and painful adjustments had been made that did not always seem to produce tangible and equitable gains for wide elements of the population. And the performance of elected governments did not always appear to represent great improvement in terms of efficacy, accountability and honesty.

As a result, opposition to “neo-liberalism” grew and came increasing to have consequences in national elections. Indeed, beginning with the 1999 advent of Hugo Chavez in Venezuela, even an anti-democratic reaction became evident in some parts of the region. Within Brazil, the banner of resistance to liberalization was carried principally by the Workers' Party (PT)—whose leader, Luis Inacio “Lula” da Silva had been defeated in three previous tries for the nation's presidency (1989, 1994 and 1998). Thus, it vigorously opposed most of the reforms proposed by the Cardoso administration—both in Congress and in the streets, with frequent public demonstrations against the privatization program then in train. But Lula was always quite proud of his role in the restoration of full democracy to Brazil, the extreme multi-party nature of which meant that no single party could govern effectively alone. And, although his prospects for success in the 2002 elections clearly benefited from a building wave public disenchantment with the immediate results of Cardoso administration policies, attentive students of Brazilian politics could also note a moderation of traditional PT rhetoric in the run-up to the race that year.

In point of fact, the record of the Lula administration since its inauguration on January 1, 2003 has, indeed, belayed exaggerated fears inspired by historically radical PT attitudes. Clearly, he is not an advocate or agent of much in the way of further economic liberalization. Moreover, he has fallen short of many of his own social goals and seen his tenure tainted by frequent scandals—as even the most fervent PT partisans would admit. But, on the other hand, there has been no attempt to roll back the important reforms carried out during the previous decade and Lula's government has pursued quite prudent fiscal policies.

This record in the economic sphere and the fact that Brazil's democratic institutions remain in tact (even if imperfect) are very important in the context of the fundamental struggle going on today for the future of Latin America. The real danger there is that frustration with the slow pace of change, will give rise to reactions propelling countries backwards—toward the kind of authoritarian, statist, neo-populist economic models that have failed so universally in the past and are almost always concomitant with the demise of democracy. Given that democratic political systems will mean power is handed back and forth between parties of differing ideological orientations (*alternancia*), it is critical—not only that there are parties willing to undertake the kinds of reforms necessary to generate ongoing growth—but, also, that their (generally leftist) opposition does not tear them down (much less attempt to assume authoritarian control) when its turn in office comes. This has been the secret of success in Spain, Portugal and Chile. Many other countries have not been so lucky to date. But, hopefully, Brazil has now joined the ranks of the more fortunate.

The interplay of these factors and eventual outcome has great implications for the future of individual countries and their relationships with the United States. Once there is a general and secure domestic consensus in favor of democratic institutions/

practice and that radical populism is not a viable socio-economic option, countries must deal reasonably—on the basis of their own self-interest—with the governments of the more developed democracies and the diverse sources of public, and especially private, capital that exist around the globe. Such a consensus also eventually heightens awareness of the dangers of instability and radicalism in neighboring countries.

This explains, in large measure, the impressive, but generally underappreciated, success of the outreach of the current Bush administration to the newly-elected Lula government and why Lula, to his credit, responded so affirmatively. The record here is quite remarkable—especially given their differences in ideological orientation, both historical and enduring. But it is easily explained in terms of the national interests of the two countries. Washington wishes to see a stable and democratic Hemisphere that is ever more integrated into the global economy. And Brazil needs to continue on its path toward greater and more wide-spread economic development—eventually becoming something of a global power in its own right. Even the strongest advocates of liberalization (among whom I count myself) have come to more fully recognize that maintaining democracy in countries with large numbers of poor people is a difficult task that requires—not only a long-term political consensus in favor of practical economic policy—but, also, concerted attention to social issues and, perhaps, some rest stops along the way. And much (but not all) of the PT has come to realize that a good bit of its previous ideology was generated by impressions that may never have been entirely true and certainly do not reflect contemporary realities. Also, hierarchal rigidities within the international system have declined considerably during recent decades and there is greater balance of power between Brazil and the United States—so that governments can agree to disagree on some issues, yet cooperate effectively in other areas of compelling mutual interest.

There are many domestic and foreign policy issues on which the current US administration would probably prefer to see something other than the approaches chosen by the Lula government. And vice-versa. But there now would appear to be a Republican/Democrat-PT/centrist opposition consensus on many basic questions that should allow fruitful cooperation on the basis of common interests into the indefinite future—independently of who precisely is occupying the White House or Palacio Planalto. For example, democracy must be preserved in the region—while instability and radicalism are things to be avoided; economic growth—fostered by strong trade and investment flows—is a high priority; such problems as transnational crime have to be approached jointly in order to preserve adequate levels of public security; and environmental considerations have come to center stage.

In addition, present world-wide concern with energy and its security may now have created an area of unprecedented opportunity for US-Brazilian cooperation. The United States will have to decide how best to reduce its increasingly dangerous overdependence (and that of the world) on a small number of oil exporters, many of which are vulnerable, unstable or hostile. And, in this regard, we will have to determine the contribution that can and should be made by domestic production of ethanol. But almost whatever we decide, this country alone cannot produce nearly enough ethanol (with current technology) to make a significant enough dent in our gasoline consumption. On the other hand, Brazil has registered incredibly impressive performance in producing and using ethanol from cane as a fuel—which has helped to transform it during the past three decades from the developing nation with the world's largest oil bill to energy self-sufficiency. This combination of circumstances—as well as the positive tenor of their previous interaction—is the foundation upon which the recent accord between Presidents Lula and Bush was signed in March of this year. Its intention is for the two countries to work toward transforming ethanol into an internationally traded commodity and significantly stimulate its increased production—in this Hemisphere as a first step. Success along this line would be a tremendous boon to both countries—reducing the dependence of the world economy upon tenuous petroleum supplies, alleviating the burden imposed by high oil prices on the developing democracies of the Americas (indeed, perhaps providing them with new export opportunities) and yielding environmental benefits from reduced burning of hydro-carbon fuels.

This is the kind of initiative which the current, fundamentally cooperative pattern of US-Brazilian relations makes possible. It is not to be expected that complex and important countries like Brazil and the United States will agree on every particular. All that can be hoped is that relations—based upon shared basic values—will be sufficiently positive that so that opportunities to work together created by common interests are effectively realized. That seems to be the case today and it is my hope that this will continue into the long-term future—eventually making possible resolution of issues that seem as difficult today as a conservative Republican administra-

tion in Washington working with a PT government in Brasilia might have seemed five years ago.

