

CHALLENGER: Brazil

Brazil is the world's fifth largest population, the largest land area in South America and the world's largest Portuguese-speaking nation. It is one of the largest *iron ore* producers and exports of this and other minerals are booming, driven by China's voracious appetite for all manufacturing inputs. It is also the world's largest producer of *sugar, coffee, beef* and a major producer of *soy, cotton, cocoa, forest products* – all commodities with guaranteed ongoing demand.

Government -- Brazil's experience of democratic government is recent and filled with disappointment. Since Lisbon's rule ceased in 1808, Brazil progressed through various governments controlled by the landed elite or the military until 1985 when the military returned to civil authority the rule they had nervously appropriated in 1964. In 1989 Fernando Collor de Mello received 53% support in the first direct presidential election since 1960. In 1994 Fernando Henrique Cardoso received 54% and served for two terms. In 2002, **Luiz Inacio Lula da Silva** ("Lula"), having tried for office four times, received 61% of the vote. Lula is the first elected president in a generation with anything like a comfortable popular vote and polling indicates that Lula will be re-elected for another four-year term in October 2006 unless something unforeseen happens. If re-elected, the margin of his vote will be an important indicator of the direction the administration will take. If both the Right and the Left polarize the country against him, he will preside over a precarious, inequitable Brazil: if his vote is increased above the 61% he will have a mandate both inside and outside the country to continue moderate-Left reforms.



Development -- According to the *World Bank*, **Brazil** (along with **Venezuela**) has the world's most extreme concentration of land in the hands of a few so only Lula's diehard enemies see *land reforms* as apocalyptic. But Lula has faced increasing pressure from the landless movement, **Movimento dos Sem Terra (MST)**, to make good on his promise to deliver land to over 400,000 families in his first term. Only about a quarter of that goal has been achieved but the government insists that families are being properly settled and given financial and technical support to ensure successful use of their land. [This is in contrast, for instance, to the catastrophic gesture towards land reform in **Zimbabwe**.]

When Lula's election seemed likely in 2002, the Brazilian currency hit an all-time low and financial markets panicked at the prospect a one-time shoe-shine boy from the *Workers Party (PT)* gaining control. Four years later, Lula is seen as successful above all expectations. Economic fundamentals are stronger now than in 2002 and the "markets" have fewer fears about what a Lula administration might do. The **IMF** has applauded Lula's "well-disciplined macro-economic management" but this has been at the cost of sweeping social reforms at a pace expected by his electorate [*IMF says Brazilian economy stabilizes and has potential to grow* (#7193)]. This is very similar to the situation in **South Africa** where the government has also taken great pains to be, and be seen to be, economically responsible in meeting the needs of a massive dispossessed and previously disenfranchised population. In consequence, some of Lula's fiercest critics are in the Left that elected him (as is true of the *ANC* in South Africa). For this

reason, all that might disrupt Lula's re-election in October 2006 is an attack from divided Leftist factions [Leftist a threat to Brazil president (#8220)]. Some say Lula has been lucky, that world demand for Brazil's export commodities in the last four years have been instrumental in turning around Brazil's serious debt position. This is true but demand in just those commodities is certain to be maintained for the next four years and Lula's critics are also certain to demand commensurate social benefit.

BRAZIL – Key statistics

- Population: **188 Million**
- GDP (PPP): **\$1.6 Trillion**
- GDP per capita (PPP): **\$8,400**
- Unemployment: **9.8%**
- Poverty rate: **22%** (1998 est.)
- Consumer price inflation: **6.9%**
- Debt – public: **51.6%** of GDP [reduced by 2006]
- Debt – external: **\$188B**
- Military spending: **1.3%**

2005 est. unless otherwise shown; PPP - purchasing power parity

- collation: OSS.NET from several sources

Brazil is classed as a 'innovating developing country' (IDC), along with **China, India, South Africa** – countries with the metrics of a developing nation but also the capacity to develop quickly. One measure of this is Brazil's use of its equatorial location in October 2004 to perform its first space launch. But development is messy. In September 2006 *Volkswagen* forced 11,000 auto workers to take vacation following wage demands and strikes -- the growing strength of the currency and rising wages means vehicles can no longer be produced in Brazil at "third world" prices.

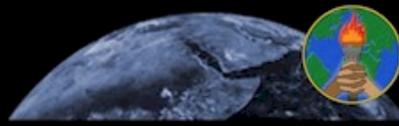
Energy -- Brazil is in a fortunate energy position. It will become a net exporter of *oil* by the end of 2006 with increased output from the *Campos Basin* and future reserves recently discovered off the coast of Rio de Janeiro state. As with **Iran**, oil is in surplus and means hard currency as *hydroelectric power* provides about 74% of Brazil's energy needs. Capital projects also strengthen Brazil's long-term energy security – a *gas* pipeline project announced in June 2006 will connect the country's southeast with the northeast reducing dependence on imports from **Bolivia** and the **US**. Brazil also has joined **Venezuela's** in regional energy strategies such as joint exploitation ventures between their state oil corporations.

Crime -- During 2006 there were pitched battles with the **First Capital Command** criminal gang. This unique level of endemic criminal insurgency is a legacy of a massive impoverished 81%-urban population. These urban areas are an important market for *cocaine* from **Bolivia, Colombia, Peru** and a transshipment point for moving cocaine into **Europe**. The *Tri-Border Area*, a dangerous region at the convergence of **Argentina-Brazil-Paraguay**, is rife with money laundering and trafficking in arms and narcotics. The three stakeholder have recently opened an enforcement intelligence center in the area.

International Relations -- Brazil (like the **US**) has refused to recognise the compulsory jurisdiction of the **International Court of Justice**. Although Brazil has not joined the **Non-Aligned Movement**, it is friendly to NAM's aims and frequently sends observers to NAM summits. Brazil is a member of **Mercosur** (*Mercado Común del Sur* ; Portuguese **Mercosul, Mercado Comum do Sul** - Southern Common Market) a customs union of **Brazil, Argentina, Uruguay, Paraguay, Venezuela**, founded in 1991

US Relations -- The **US** was the first country to recognize Brazil's independence in 1822 and there have been several two-way state visits in recent years. Superficially US-Brazil relations are cordial but there is an instinctive distrust in Washington for any left-leaning regime in Latin America which in past decades this led to direct often covert intervention in various nations. Well aware of this, the Lula administration is careful to maintain the blessing of bodies such as the **IMF** in its social reforms.

Near-Term	Mid-Term	Long-Term
Brazil is the centre of gravity in Latin America. Stability or	Crime is a critical problem in Brazil. Fueled by cocaine and	It is still early days for social development in Brazil and



instability there will influence the future to varying degrees of its *ten* neighbors. Due to bountiful water, exportable commodities and **energy security**, only the most extreme misgovernance, with or without external interference could bring Brazil to state failure. The US has long seen itself as the diplomatic leader in the Americas but with Brazil's emergence as a world entity of the scale of **Indonesia**, diplomacy in the Americas may need to be rewritten on a more collegial basis.

other crime monies, **criminal gangs** are not just a police matter; rather they engage government forces in pitched battles using heavy weapons. Major criminals are able to continue control of their organizations from prison and the immense amounts of money involved in crime are able to suborn officials at every level. This is a non-trivial impediment to Brazil's development as it robs the nation of revenue and diverts government resources. Only a prolonged military OOW campaign can dislodge the gangs.

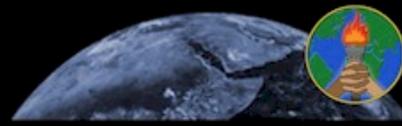
adjoining **Venezuela**. There are obvious empathies, but Brazil has been careful to avoid any hint of union of socialist republics – partly because it is unnecessary and partly because it would cause a Congressional conniption in the US. However, synergies throughout Latin America, through vehicles such as **Mercosur**, seem certain to develop over time into a powerful trading entity similar to the **EU** or **ASEAN**. This would be a *de facto* regional challenger to the US.

[1408 words]

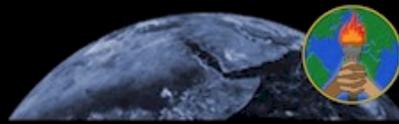


Change Codes
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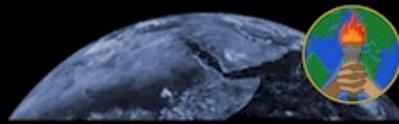
week-ended	See daily list of news items
2007 Jul 01	<ul style="list-style-type: none"> • Brazil will resume construction of its third nuclear reactor -- "<i>approval of the third plant could herald the start of a wider nuclear project to build up to <u>eight reactors</u> by 2030</i>". <i>see also: Water</i>
2007 Jun 24	<ul style="list-style-type: none"> • Movimento dos Trabalhadores Rurais Sem Terra (MST, <i>Movement of Landless Rural Workers</i>) says it will settle for nothing less than appropriation of foreign capital land-holdings -- Brazil's landless break up with Lula and call him tragedy for country. <i>Rio</i> sees another fierce battle between authorities and criminal gangs; "<i>there were several gun battles and police used <u>heavily reinforced vehicles</u> to maintain their presence</i>" -- Brazil police mount Rio crackdown.
2007 Jun 17	<ul style="list-style-type: none"> • Brail's Supreme Court has established important precedent on traditional ownership of lands and has returned land to indigenous owners after separation of over 100 years -- Brazil's highest court sides with Indians against rice farmers. Another land-equity issue: "<i>the largest ever gathering of <u>landless workers</u>, concerned about the effects of energy production on land ownership</i>" -- .Brazil's landless peasants to hold largest meeting in their history.
2007 Jun 10	<ul style="list-style-type: none"> • Brazilian authorities have busted several gangs involved in suborning police and military, smuggling, drug trafficking and illegal gambling – Brazil's Operation Arrests 77 and Dismantles Police and Businessmen Gangs.
2007 Jun 03	<ul style="list-style-type: none"> ↑ In a move unpopular with the Roman Church, Brazil will distribute and subsidize contraceptive medications [<i>"the pill"</i>] by up to <u>90%</u> -- Row brews over cheap Pill plan.



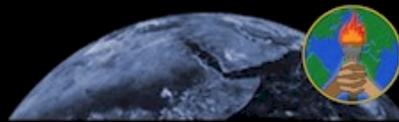
	<p>Brazil is giving its <i>police</i> [brief] training in human rights -- "<i>We want an intelligent police that ensures security without violating human rights.</i>"</p>
<p>2007 May 27</p>	<ul style="list-style-type: none"> • Brazil's Treasury issued a statement urging an "<i>open and transparent process, without restricting candidacy to <u>one nationality</u></i>" in appointing the next head of the World Bank. <p>Under (moderate) socialist President Lula, Brazil's huge homeless population are giving a political dimension to their occupation of derelict buildings -- Homeless squatters find 'social function' for empty buildings.</p> <p>Protesters threatened to shut down the country's second-largest hydro power plant over unsettled claims for flooding 23 years ago, but ended the protest peacefully when the army became involved. Work will resume on a third nuclear plant which began in 1984 but was suspended due to financing problems and concerns over nuclear security.</p>
<p>2007 May 20</p>	<ul style="list-style-type: none"> • A Brazilian rancher has been sentenced for ordering the killing of a 73-year-old nun obstructing his destruction of jungle. <p>President Lula does not <u>want</u> constitutional amendment that would allow him to stand for a third term but does want say in who will be the party's next candidate.</p>
<p>2007 May 13</p>	<ul style="list-style-type: none"> • Pope Benedict visits Latin America where few traces of Liberation Theology have escaped extirpation; Benedict to confront a vast theological divide in Brazil -- "<i>I'd rather not use [the term] 'Liberation Theology': There's no use provoking people</i>" says the jeans-clad Irish priest ... where the front office bears a photograph of Che Guevara ...
<p>2007 May 06</p>	<ul style="list-style-type: none"> • Brazil has broken the patent on a Merck AIDS drug when price negotiations broke down and has threatened to break more patents if prices are not reduced on needed drugs -- "<i>the 'compulsory licensing', as the Brazilian government calls the patent breaking, might occur every time prices are 'far from the Brazilian reality'</i>". <p>Farmers in Santa Catarina are threatening violence against return of lands to indigenous peoples.</p> <p>Brazilian officials visited Egypt for a South American and Arab ministerial meeting to share Brazil's experience in social development programs.</p> <p>10 million or 45% of Brazil's Amazon population live on less than \$2 a day and Brazil's ability to reach Millennium Development Goals in aggregate depends on improvements in this region.</p>
<p>2007 Apr 29</p>	<ul style="list-style-type: none"> • Moderate President Lula says President Chavez of Venezuela is <u>not</u> a problem for the region; focus should be kept on Latin America's real problem -- centuries of rule by brutal elites.
<p>2007 Apr 22</p>	<ul style="list-style-type: none"> • Brazil Federal Police are uncovering a "sentences for sale" racket -- "<i>this is the largest police offensive in recent memory against the Brazilian judiciary.</i>" <p>Another gun battle in Rio leaves 19 dead. Despite the urgency to tackle crime in Rio, the military is reticent to get involved in any long-term arrangement -- the Defense Minister says Lula is "obsessed" with helping Rio but that the constitution must be respected.</p>
<p>2007 Apr 15</p>	<ul style="list-style-type: none"> • Brazilian landless farmers plan to celebrate "Red April" with a number of peaceful mass actions to protest the slow pace of land reform. <p>The Rio governor wants more help from the armed forces to fight crime -- "<i>the military and civil police are extremely overworked. I think that all law enforcement agencies can help in this struggle.</i>"</p> <p>At least 20 people including police suspected of carrying out about 1,000 contract killings in five years were arrested in the north-eastern state of Pernambuco.</p>
<p>2007 Apr 08</p>	<ul style="list-style-type: none"> • Brazil is negotiating supply of LNG from Algeria -- "<i>Brazil is looking to reduce its dependence on gas supplies from neighboring Bolivia after it nationalized its</i>



	<p><i>hydrocarbons sector.</i>"</p>
2007 Apr 01	<ul style="list-style-type: none">• Brazil estimates half a million criminals are at large in the country -- "<i>Brazil currently holds 401,236 prisoners, which means if law enforcement units arrest all the fugitives, the prison system will collapse.</i>"
2007 Mar 26	<ul style="list-style-type: none">• In Brazil's largest police operation ever, 30,000 policemen across Brazil arrested over 2,000 suspects.
2007 Mar 19	<ul style="list-style-type: none">• Coinciding with the visit by President Bush, a series of events were held in <i>São Paulo</i> with the theme '<i>Party of Nations: the contribution of Arab culture</i>'. More on the work of <i>Brazilian Agricultural Research Corporation in Africa: A Whole Lot Going on in Africa Courtesy of Brazil.</i>
2007 Mar 12	<ul style="list-style-type: none">↑ Brazil signed an agreement to supply 800M gallons of ethanol per year to Japan. <i>Empresa Brasileira de Pesquisa Agrícola</i> has opened an office in Ghana and hopes to work with 18 African countries on agricultural technology transfer. The US is attempting to play energy diplomacy [with few bargaining chips] in South America, particularly with Brazil to isolate the various Bolivarian initiatives. Brazil says its production of a highly effective H5N1 vaccine demonstrates its strategic capability to produce large-scale quantities of any vaccine quickly.
2007 Mar 05	<ul style="list-style-type: none">↑ Brazil feels safe from international "turbulence" with over \$100B in foreign reserves for the first time ever. Obedient to the UN sanctions now placed on Iran, Brazil has banned exports of nuclear know-how to Tehran. <i>Rio de Janeiro</i> has a high homicide rate of around 40 per 100,000 inhabitants -- one town in the interior, the "homicide capital of Brazil", has a rate of 165 per 100,000.
2007 Feb 26	<ul style="list-style-type: none">• Brazil's President Lula has made a fence-building visit to Uruguay which is torn between continued involvement in Mercosur and the US FTA. A news item <i>9 Killed in Massacres in São Paulo, Brazil, This Weekend</i> gave a recap of recent similar incidents such a drive-by shooting of a three and a four year old. A widespread kidnapping swindle is now often run by mobile phone from inside Brazilian prisons. Investigation of Brazil's recent worst air crash suggest that a better command of English may have prevented the collision. [English is the internationally-agreed language of air traffic control.]
2007 Feb 19	<ul style="list-style-type: none">• Brazil seeks to overcome the asymmetries in Mercosur that disadvantage smaller economies such as Uruguay and Paraguay. Nine are killed in a Rio slum shoot-out -- "<i>Rio de Janeiro is well accustomed to gun crime but now there is a new pattern to the violence.</i>" [Private militias take on crime gangs.]
2007 Feb 12	<ul style="list-style-type: none">• A top policeman has been suspended -- "<i>He was a top adviser to the previous government and when the new police chief took over and learned of [his] links to the militias, he was suspended.</i>" President Lula accuses rich nations of hypocrisy on climate change issues -- "<i>The wealthy countries are very smart, approving protocols, holding big speeches on the need to avoid deforestation but they already deforested everything.</i>" Brazil blames the US for the breakdown of the Doha Round negotiations -- "<i>It is not fair that a farmer in a developing country must compete with the treasury of a rich country.</i>"
2007 Feb 05	<ul style="list-style-type: none">• A retired Brazilian ambassador to the US says "<i>There are in Brazil sectors, although minorities, that have an aversion to the United States ...</i>" By 2015 Brazil hopes to commission 42 locally-built oil tankers. Almost 15% of the 513 people taking seats as elected representatives in the new Congress are under investigation or have been convicted. A six-state operation targeted global drug-trafficking and money-laundering



	cartel/s.
2007 Jan 29	<ul style="list-style-type: none"> A \$2M river-diversion project on the <i>Sao Francisco River</i> meant to benefit millions in the <i>Sertao</i> region will probably cause widespread environmental damage. A \$70M bank robbery and a body of one suspect in a well was possibly the work of crime gang First Capital Command. Rio's drug lords are helping their comrades in crime by leasing them the expensive weapons they cannot afford.
2007 Jan 22	<ul style="list-style-type: none"> ↑ A new gas reserve off Brazil with 3M m³ production (which could reach 6M) will help Brazil in its current energy dispute with Bolivia. Two city buses were torched after authorities entered the <i>Mangueira</i> slum and killed at least three drug gang members. Brazil has already accumulated almost US\$1B surplus in foreign trade in 2007.
2007 Jan 15	<ul style="list-style-type: none"> The first troops arrive in <i>Rio de Janeiro</i> 20070114 to secure the city against heavily armed gangs but it is not yet clear where and how they will be deployed.
2007 Jan 08	<ul style="list-style-type: none"> Brazil may send troops to counter violent war-like gangs in Rio -- "<i>It's terrorism and must be dealt with by the strong hand of the Brazilian state.</i>" Brazil and the US are to discuss resumptons of the Doha Round -- "Brazil is one of the founding members and leaders of the so-called Group of 20 (G20), which represents developing countries ..." President Lula has been sworn in for his second term – his supporters are enthusiastic: "<i>He's had it tough because he's been governing without support of Congress</i>" -- "<i>I'm a faithful believer in his commitment to the poor, he's the face of the poor.</i>"
2007 Jan 01	<ul style="list-style-type: none"> [nothing significant to summarize but see links to stories in this topical area]
2006 Dec 25	<ul style="list-style-type: none"> Brazil will be the first Latin American country to reopen its embassy in Iraq since the 1991 <i>Gulf War</i>. A journalist has been accused of being on the payroll of a crime gang -- "Jose Messias Xavier lost his job at TV Globo after public prosecutors said he took bribes of about \$465 a month from ... the Fernando Iggncio crime family"
2006 Dec 18	<ul style="list-style-type: none"> During a Latin American tour, Russia foreign minister Lavrov discusses sourcing liquid fuel for spacecraft from Brazil and supplying <i>Mi-35</i> combat helicopters and <i>Mi-70</i> transport helicopters. The two nations confirm they have a "common approach" to international problems. <i>Paranaguá</i> is the first port in Brazil to receive International Ship and Port Facility Security accreditation.
2006 Dec 11	<ul style="list-style-type: none"> Brazilian police have arrested the masters of forced laborers -- there are an estimated 25,000 forced laborers in Brazil; many are charcoal-makers in the Amazon region; illegal wood and illegal labor means big profits. The Brazilian Army chief has visited Jammu and Kashmir and had discussions with General Sapru [GOC 16 Corps, Jammu] on "varying subjects of mutual interests".
2006 Dec 04	<ul style="list-style-type: none"> The <i>Miami Herald</i> says President Lula is "wrapped in secret intelligence scandal" which seems little more than a re-elect-the-President cell in the Workers Party. Brazil is to boost security at Rio's airport after several attacks on tourists buses coming from the airport.
2006 Nov 27	<ul style="list-style-type: none"> Brazil has sent troops to the border to battle drug crime -- "Most of the drugs entering Brazil come through Paraguay and go to <i>Sao Paulo</i> and <i>Rio de Janeiro</i> states or the nearby port of <i>Santos</i> for shipment abroad."
2006 Nov 20	<ul style="list-style-type: none"> President Lula says both he and Venezuelan President Chavez are " victims of prejudice from people who ruled our countries for centuries and centuries."
2006 Nov 06	<ul style="list-style-type: none"> Brazil and Peru have signed agreements on <i>Amazon Surveillance</i>, <i>strategic intelligence</i> and other matters.
2006 Nov 06	<ul style="list-style-type: none"> President Lula has been re-elected for a second terms but his Workers Party has only 83 in the 513-seat <i>Chamber of Deputies</i>, and is only the fourth biggest party in the <i>Senate</i> - compromise and alliances are crucial.



2006 Oct 30	<ul style="list-style-type: none"> ↓ 130 suspected “foreign” <i>drug dealers</i> from 38 countries have been arrested so far this year in Sao Paulo state. Of Rio’s crime rate, Amnesty International reports "It is time to put an end to a <i>public security</i> policy which endangers lives of all residents in Rio’s poorer communities, and does nothing to combat the growth of <i>drug-related crime</i>."
2006 Oct 23	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Oct 16	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Oct 09	<ul style="list-style-type: none"> • The presidential election unexpectedly will go to a second round; Silva polled 48.6% and Alckmin, the former governor of Sao Paulo, polled 41.6%.
2006 Oct 02	<ul style="list-style-type: none"> ↓ More than 150 Brazilians were <i>murdered</i> each day last year on average -- worse than Iraq.
2006 Sep 25	<ul style="list-style-type: none"> • Lula da Silva has distanced himself (slightly) from his Workers Party in the last days before the presidential vote by dismissing his controversial campaign manager.
2006 Sep 18	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Sep 11	<ul style="list-style-type: none"> • Far from being a radical, Lulu has been very conservative -- too conservative -- with the opportunity he has had.
2006 Sep 04	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Aug 28	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Aug 21	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Aug 14	<ul style="list-style-type: none"> ↓ The <i>First Capital Command</i> criminal army has continued its urban war against the government with hundreds of attacks on government and business assets — all that now might disrupt re-election of President Lula da Silva is an attack from his Left.
2006 Aug 07	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Jul 31	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Jul 24	<ul style="list-style-type: none"> • [nothing significant to report]
2006 Jul 17	<ul style="list-style-type: none"> • Brazil continues its bitter struggle against the criminal insurgency <i>First Command of the Capital</i>.
2006 Jul 10	<ul style="list-style-type: none"> • Brazil reported the arrest of "the biggest cocaine supplier in Brazil".
2006 Jul 03	<ul style="list-style-type: none"> • Lula’s administration seems set for continuing domestic success and, at present, is content with hurling only abuse at the US.

Commencement of Service

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