

The U.S.-Brazil Defense Partnership



Moving Toward Closer Cooperation



Brazil-U.S. Business Council



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Defense and Security Partnership

On April 9, 2012, President Barack Obama and Brazilian President Dilma Rousseff launched a historical U.S.-Brazil Defense Cooperation Dialogue (DCD), one of four presidential-level mechanisms between both countries to deepen their political and economic relations. As the White House affirmed on the occasion, the cooperation between U.S. and Brazilian militaries “is closer today than at any point in more than 35 years.”

Before launching the DCD, both countries signed in 2010 two key bilateral agreements—the Defense Cooperation Agreement (DCA) and the General Security of Military Information Agreement (GSOMIA)—signaling a major step in the process of deepening the bilateral defense and security partnership.

The DCD is co-chaired by the U.S. Department of Defense and the Brazilian Ministry of Defense. Its first meeting took place on April 24, 2012, in Brasília, Brazil, at the secretary level. The DCD agenda focuses on seven priority areas— communications; cooperation to support African nations; cybersecurity; humanitarian assistance and disaster response; logistics; science, innovation, and technology transfer; and support to civil authorities in the organization of international mega events.

Scenario and Complementarities

The U.S. and Brazilian defense and security industries have to meet different challenges in the next few years. These challenges, however, present an opportunity for both governments and private sectors to work together to identify complementarities and turn the challenges into opportunities for bilateral, regional, and multilateral political and military cooperation, as well as into new business opportunities.

On the U.S. side, with the ending of major military operations in the Middle East (Iraq) and in Asia (Afghanistan), coupled with the necessity of budgetary cuts as part of public finance restructuring, the government has an opportunity to lay the foundation for a leaner and technologically advanced armed forces. As a consequence, U.S. industry looks for opportunities to expand in foreign markets, particularly those of key U.S. partners.

On the Brazilian side, the government continues to execute an ambitious plan to restructure and re-equip its armed forces to meet both old and new challenges, such as the protection of the Amazon forest and offshore pre-salt oil reserves. These goals are codified in Brazil's 2008 Defense National Strategy and its accompanying 2012 White Book (Livro Branco). In addition, the Brazilian government is undertaking renewed efforts to boost security in the country, particularly in major urban areas, and accounting for security needs related to hosting the 2014 World Cup and the 2016 Olympics.

While the United States looks to rebalance its global military posture and reinvigorate security relationships with key partners, Brazil intends to benefit from its successful social and economic model to build a modern defense and security industry to expand its role in international



peace and security governance. These distinct trajectories converge, creating an unprecedented opportunity for a deeper U.S.-Brazil defense and security partnership. Examples of successful outcomes of this partnership include U.S. and Brazilian collaboration since 2004 in the stabilization and social and economic development of Haiti, as well as the U.S. Department of Defense decision to acquire Brazilian Embraer's "Super Tucano" military aircraft for light air support in Afghanistan.

The Myth of Technology Transfer

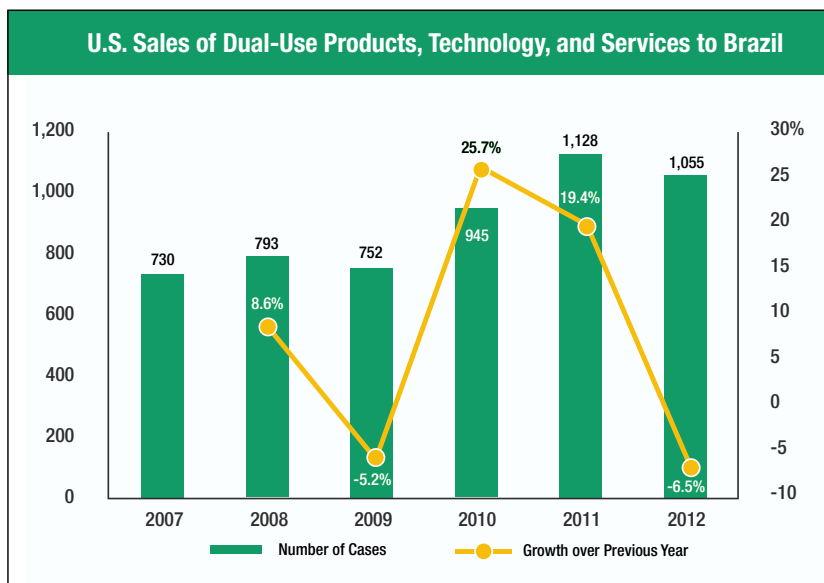
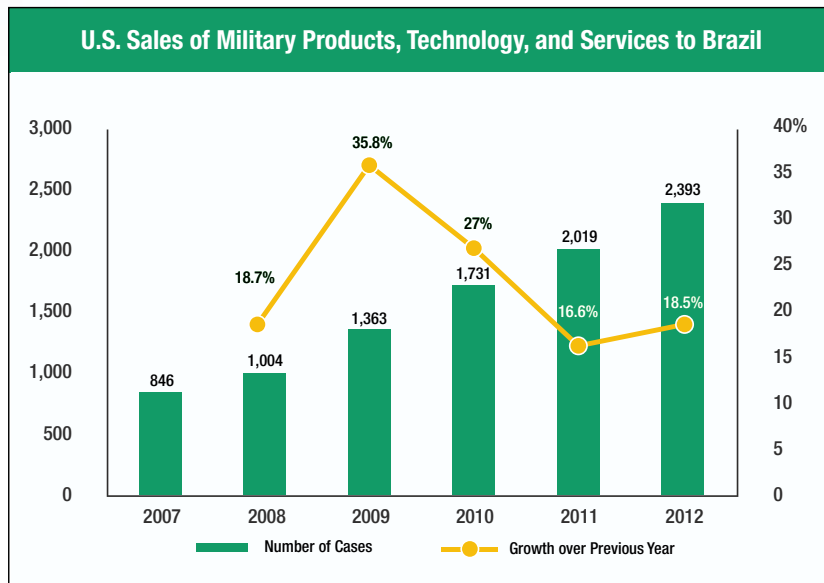
Although promising, the U.S.-Brazil defense and security partnership continues to be largely misunderstood outside of high-level political and military circles in both countries. In particular, there still is a widespread perception in Brazil that the United States is unwilling to transfer technology as part of its commitment to deepen this partnership. However, official U.S. export control statistics, from the U.S. departments of State and Commerce, demonstrate the opposite.

Export Control 101

Both the United States and Brazil control the export of products, technology, and services of their respective defense industries. These controls are used for foreign and trade policy goals, as well as for compliance with international law. The United States has a "hybrid system" through which military exports are controlled by the U.S. Department of State while dual-use exports—i.e., products, technology, and services that can have either a military or a civil use—are controlled by the U.S. Department of Commerce. Brazil, however, controls what it classifies as "sensitive" products, technology, and services through a centralized inter-ministerial commission.

First, there is growing Brazilian demand for technology transfer reflected in the significant increase of U.S. sales of military products,

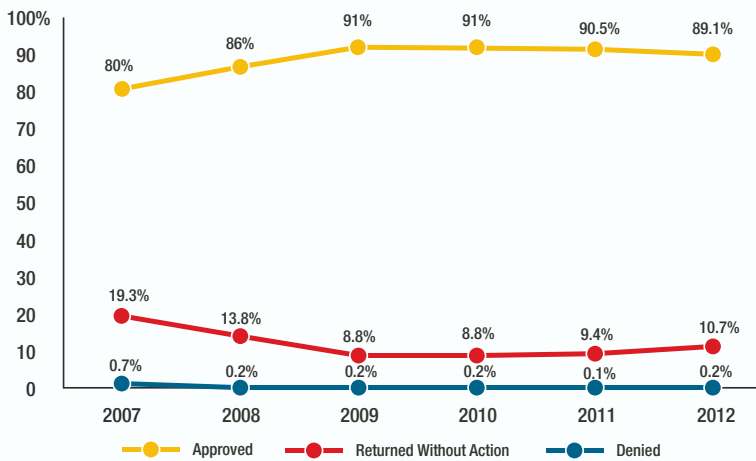
technology, and services to Brazil—known as “direct commercial sales” in U.S. export control parlance and adjudicated on a case-by-case basis by the U.S. Department of State. This trend is also observed in U.S. sales of dual-use products, technology, and services to Brazil adjudicated on a case-by-case basis by the U.S. Department of Commerce.



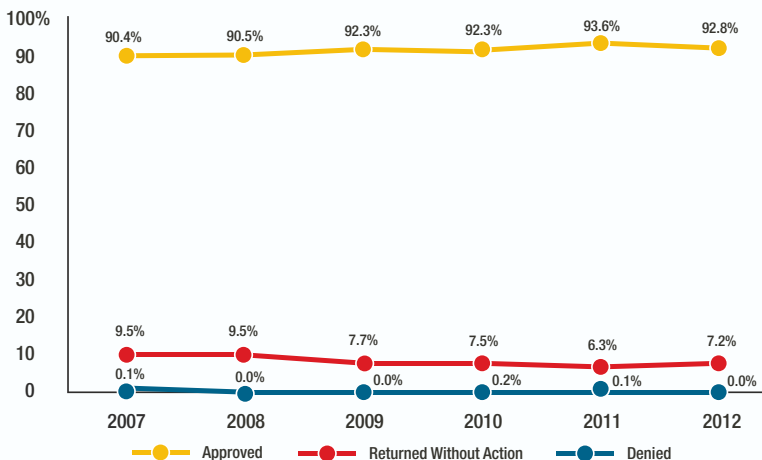


Second, U.S. approvals climbed and stayed at an approximate rate of 90% per year with a negligible number of cases being denied. About 10% of cases are returned without action, usually because no export license was required—a figure that is even lower for dual-use products, technology, and services.

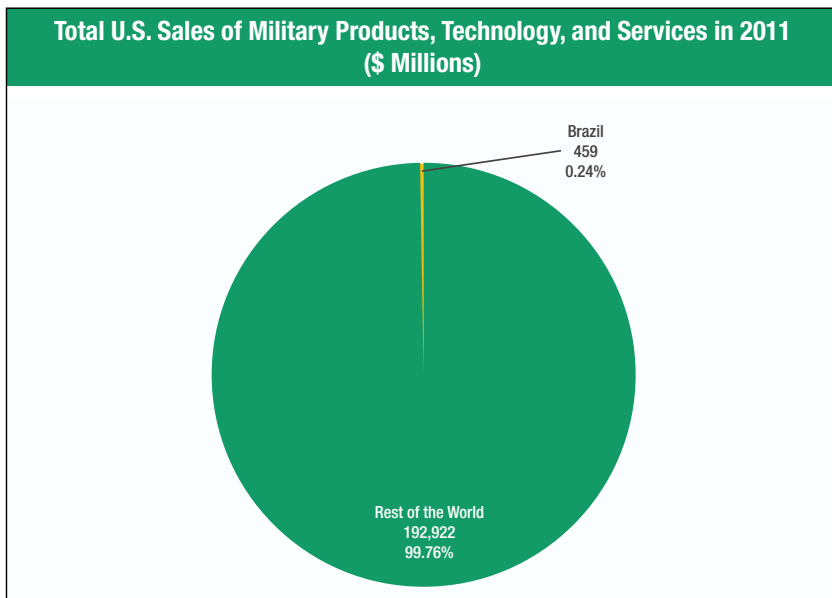
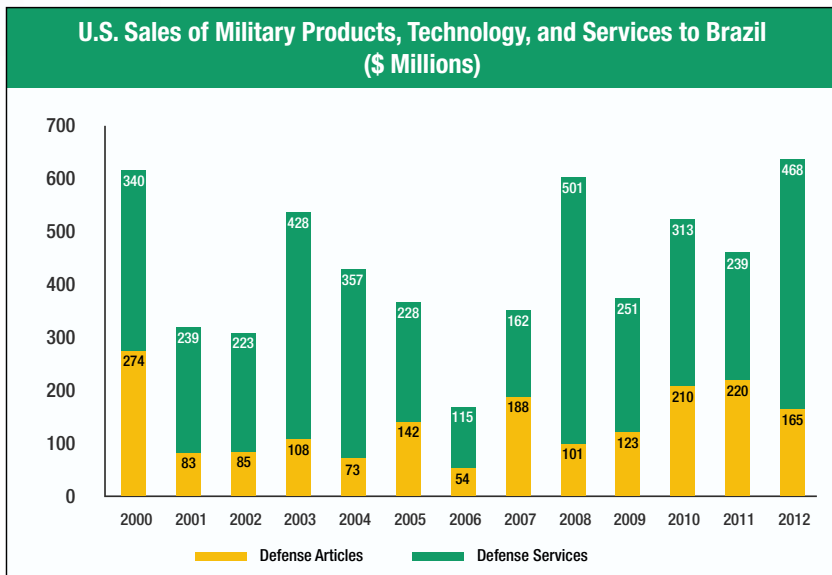
U.S. Sales of Military Products, Technology, and Services to Brazil (Total Cases)



U.S. Sales of Dual-Use Products, Technology, and Services to Brazil (Total Cases)



Finally, U.S. approvals of technology transfer result in substantial sales of both defense articles and services to Brazil. Nevertheless, these sales represented less than 1% of total U.S. military products, technology, and services sales in 2011, thus showing the potential for further expansion. U.S. dual-use sales to Brazil peaked at more than \$1 billion in 2011.





A More Effective Partnership

The key to a successful partnership in defense and security between Brazil and the United States is mutual confidence and reliance. On one hand, the creation of a more solid and favorable legal and enforcement framework in Brazil is essential for the relationship to progress further. On the other hand, U.S. interest in the Brazilian defense sector must be accompanied by a firm, long-term commitment to the country and its domestic industry.

In this context, the Brazil-U.S. Business Council (BUSBC) recommends the following actions:

- The Brazilian executive branch send the following bilateral agreements to and secure their approval by the Brazilian National Congress:
 - The 2010 Defense Cooperation Agreement (DCA)
 - The 2010 General Security of Military Information Agreement (GSOMIA)
 - The 2011 Air Transport Agreement (ASA or Open Skies)
 - The 2011 Framework Agreement on Cooperation in the Peaceful Uses of Outer Space
- The Brazilian and U.S. governments negotiate a Reciprocal Defense Procurement Memorandum of Understanding through the designation of Brazil as a “qualifying country” for U.S. defense procurement purposes.
- The Brazilian and U.S. governments pursue their 2011 presidential commitment “to commence negotiations of a new agreement to protect launching operation technologies” by formally beginning negotiations of a new Technology Safeguards Agreement (TSA) between the two countries.

A More Effective Partnership continued

- Robust private sector participation in the following bilateral mechanisms:
 - The Aviation Partnership (AP)
 - The Defense Cooperation Dialogue (DCD)
 - The Internet and Information and Communication Technology (ICT) Dialogue
- The revision of Brazil's Special Tax Regime for the Defense Industry (RETID) Law 12598/2012 definition of strategic defense company to allow more robust participation of U.S. companies in public bids for the purchase and/or development of defense products and systems.
- The easing of export control measures for military and dual-use products, services, and technology be exported to Brazil.
- The inclusion of Brazil in the list of beneficiary countries under the U.S. Strategic Trade Authorization (STA), currently composed of 36 countries.
- The adhesion of Brazil to the following multilateral mechanisms for harmonization of export control rules:
 - The Australia Group
 - The Wassenaar Arrangement
- The Brazilian government opt for the U.S. proposal in its Air Force F-X2 competition.
- The Brazilian government enact and implement policies conducive to the strong participation of U.S. companies ready to support the modernization of Brazil's armed forces and the development of Brazil's defense industrial base.

About Us

The Brazil-U.S. Business Council (BUSBC) is the premier business advocacy organization dedicated to strengthening the economic and commercial relationship between Brazil and the United States. Established in 1976, the Council is composed of two sections. The U.S. Section of the Council represents major U.S. companies that invest in or have business in Brazil. It operates under the administrative aegis of the U.S. Chamber of Commerce and maintains independent policy formulation and membership. The Brazil Section of the Council is managed by the Brazilian National Confederation of Industry (CNI), composed of the 27 Brazilian state-level Federations of Industries. BUSBC also works in conjunction with the American Chambers of Commerce for Brazil (AmCham Brazil), the U.S.-Brazil CEO Forum, and sectoral associations in both countries. Together, this powerful structure enables the Council to forge consensus between the two private sectors and communicate to both governments with a unique bilateral voice.



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