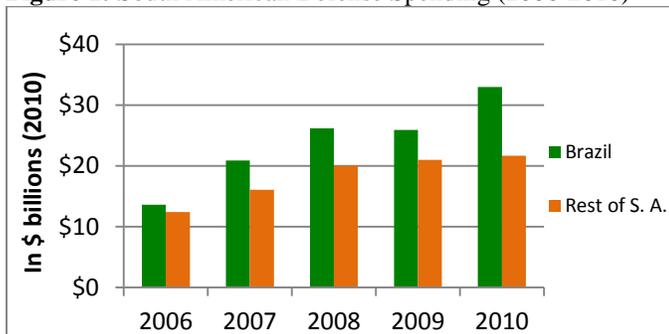


## CURRENT ISSUES

**No. 29: U.S.-Brazil Relations and the Role of the Defense Industry (08/28/2012)**

In April 2012, Brazilian President Dilma Rousseff and President Obama established the U.S.-Brazil Defense Cooperation Dialogue (DCG), an ongoing forum to promote defense collaboration between the two countries. Brazil's emergence as South America's leading power is cause for the U.S. to reexamine the bilateral relationship and study areas where it can be strengthened. Establishing the DCG will help solidify the security relationship. Strengthening defense-industrial ties can play a role in making the DCG a success.

**Figure 1: South American Defense Spending (2006-2010)**



Source: RESDAL, CSIS Analysis

### The Brazilian Defense Industrial Base

In 2010, Brazil's \$33 billion defense budget was the 10<sup>th</sup> largest in the world, and comprised more than 60% of total South American defense spending. From 2008-2010 Brazil's spending on acquisition and R&D as a portion of its defense budget increased from 10.9% to 14%, the third largest increase in South America.<sup>1</sup> The \$4.6 billion Brazil spent on these two categories alone in 2010 was greater than the entire defense budget of most South American nations.

In 2008, Brazil's Ministry of Defense released the *National Strategy of Defense (NSD)*, a strategic

<sup>1</sup>RESDAL, *A Comparative Atlas of Defence in Latin America*, 2010, pg. 55.

review of the country's defense posture and objectives. The NSD emphasizes the development of a robust domestic defense industrial capability to both "compete with external markets in order to increase their production scale" and create the "technological capacity...to gradually rule out the need to purchase imported services and products."<sup>2</sup>

Since the publication of the NSD, little has changed. The aerospace conglomerate Embraer remains the only Brazilian company in the *Defense News* list of top 100 defense contractors; with defense revenues of \$866 million in 2011, it was ranked 74<sup>th</sup> globally. Brazil has also made little progress in growing its defense exports, ranking 22<sup>nd</sup> in the world over the last decade.<sup>3</sup>

More recently, however, special legal, regulatory and taxation mechanisms have been put in place for the national defense industry. The Brazilian government has begun actively promoting home grown weapons platforms and other defense services to foreign customers. Brazil has also begun thinking about major acquisition programs, such as the purchase of 36 next-generation fighter aircraft to replace its aging fleet of *F-5 Tigers*, as vehicles for technology transfers to its domestic industrial base.

### What Role for America's Defense Industry?

As cuts to its defense budget get underway and the Department of Defense's focus turns towards the Asia-Pacific, the U.S. is strengthening partnerships with allies in regions where it does not maintain a prominent footprint. With Brazil's emphasis on developing its defense industrial base and America's ability to contribute to this endeavor,

<sup>2</sup> Government of Brazil, Ministry of Defense, *National Strategy of Defense*, December 18, 2008, pg.18.

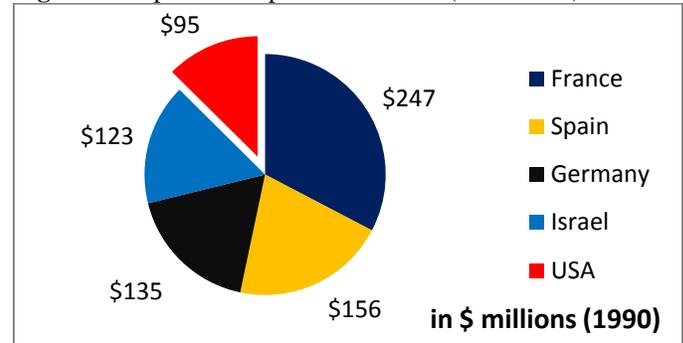
<sup>3</sup>SIPRI, *TIV of arms exports from the top 50 largest exporters, 2002-2011*, accessed August 8, 2012.

closer defense industrial cooperation provides a unique opportunity to strengthen the bilateral relationship. To achieve this, three types of actions should be considered: promoting corporate partnerships, increasing bilateral defense related trade and deliberating the transfer of technology.

Corporate partnerships create trust, promote bilateral trade, and educate allies about each other's capabilities. From 1997 to 2005, Raytheon partnered with Embraer and Fundação Atech on the Amazonia Surveillance System (SIVAM), a Brazilian Air Force program that conducts air traffic surveillance and monitoring of the Amazon. Today, Boeing is working with Embraer to improve weaknesses in its A-29 *Super Tucano*, which is being considered by the U.S. Air Force in its Light Air Support competition. These partnerships produce tailored solutions for country-specific requirements: offering the Brazilians improved oversight of their Amazonian frontier and adapting the capabilities of the A-29 to meet the unique demands of combat in Afghanistan. Building on the success of past and present partnerships, future opportunities for collaboration should emphasize mutual benefits. One possible area for corporate partnership is in unmanned aerial systems, a technology Brazil wants to develop, and in which the U.S. holds considerable expertise.

Promoting bilateral defense trade is another avenue for deepening defense industry ties. France, Brazil's largest defense supplier, used defense trade as a means for cultivating a closer strategic relationship, culminating in the signing of a strategic alliance in 2008. For the U.S., which traditionally has not had much defense trade with Brazil, greater emphasis on this issue could have similar results. Yet important to remember is the reciprocal nature of a healthy trade relationship; the French not only export to Brazil, but also import Brazilian hardware, such as training and maritime patrol aircraft. Similarly, the U.S. should be open to importing Brazilian defense materiel to meet current and future requirements. It is on the foundation of strong bilateral defense trade relations that the U.S.-Brazil strategic relationship can be strengthened.

**Figure 2: Top Arms Importers to Brazil (2006-2010)**



Source: SIPRI, CSIS Analysis

Technology transfer is the third mechanism for using defense industrial relations to strengthen U.S.-Brazilian defense ties. Brazilian Defense Minister Celso Amorim emphasized the importance Brazil places on tech transfer in its pending decision on a 4<sup>th</sup> generation fighter, saying: “When we talk about transfer, we’re not talking about donation but access to technology.”<sup>4</sup> U.S. hesitation when it comes to tech transfer is understandable; sensitive technology is costly to develop and confers a major strategic advantage in war. However, offering Brazil such technology improves its capacity to lead on regional security matters and strengthens bilateral ties.

Although these three types of actions could be pursued independently, they will be most effective if implemented concurrently as part of a multi-pronged strategy for greater defense industrial cooperation, possibly as part of the U.S.-Brazil Defense Cooperation Dialogue. Doing so is in the national security interests of both countries. To Brazil, it means developing its domestic capabilities and becoming a larger player in global defense markets. For the U.S., leveraging the strength of its defense industry to support the development of Brazil's will expand access to a major defense market, fortify ties to an important ally and enable the Brazilians to take a leadership role in the region.

– Luke Heselden

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<sup>4</sup> U.S. Department of Defense, [Joint Press Conference with Secretary Panetta and Brazilian Minister Amorim in Brasilia, Brazil](#), April 24, 2012.