

Revelations of U.S. spying against Brazil have put relations between the two at arm's length once again.

Last October, evidence of spying by the U.S. National Security Agency against the Brazilian government was uncovered, which led to the cancellation of President Dilma Rousseff's visit to the U.S. [João Augusto de Castro Neves](#) looks at the implications of the spying row, writing that while it has affected cooperation in areas such as defense and energy, the continuing links and interests between American and Brazilian companies operating in both countries mean that a full-blown trade war is unlikely.



Frustration spread when Brazilian President Dilma Rousseff decided to cancel her state visit to the United States last October due to allegations that the US National Security Agency had been intercepting government communications. The decision struck a nerve in Washington, prompting angry charges from the foreign policy establishment against Brazil's alleged overreaction or even immaturity in dealing with the issue. In Brasilia, there was, to say the least, a discomfort with the unfortunate timing, especially because it would've been the first state visit of a Brazilian head of state to the US in nearly two decades.

In the last two or three decades, Brazil-US relations have been marked by a sequence of bumps in the road every two or three years. Differences with respect to Brazil's nuclear and space programs, Colombia's drug problem, hemispheric free trade negotiations, Hugo Chavez's Venezuela, Honduras's coup de état, Iran's nuclear program, among others, have taken their toll. To some, these squabbles have resulted in a "policy" of benign neglect while to others it has generated a paradoxical disconnect between the two largest economies and democracies in the hemisphere. In the end, mutual distrust continues to hamper a deeper engagement, despite many shared values between the two countries.

The goal of the state visit was to find something that would catapult bilateral engagement to a new level, like a broad economic partnership that could unveil a roadmap for a trade agreement or talks on UN Security Council reform that could lead at some point to a US endorsement of Brazil's bid for a permanent seat. Since the cancellation, however, policy makers in Brasilia and in Washington are working to prevent the relationship from deteriorating even further.

Such deterioration is starting to be felt in more sensitive sectors. Cooperation in defense was affected, with the Brazilian air force choice of Sweden's Saab Grippen fighter jet over Boeing's aircraft last December. While Boeing's alleged favoritism in the process may be questioned, it's undeniable that the decision will not help in the process of trust building between the two countries.

Political and even operational constraints have also increased considerably for US companies in the energy sector. Last October major American oil companies decided to skip the



Brazilian President Dilma Rousseff and US President Barack Obama in 2011 Credit: Dilma Rousseff (Creative Commons BY SA)

first [pre-salt](#) oil bid round, in part to avoid what would probably be a political firestorm in case of victory. After all, state-controlled oil giant Petrobras was one of the targets of NSA eavesdropping (although it is debatable whether the real reason here may have had more to do with certain negative aspects of the regulatory framework for the oil sector than with the NSA episode).

Finally, the telecom/IT sector is the one most likely to feel the impact of the NSA scandal. Spying revelations reinvigorated the government's push to approve a legal framework for regulating the internet in Brazil and to require internet companies to house Brazilian user data in the country, which would raise costs for companies even though it would not prevent them from also housing data copies abroad. Such a policy would serve two purposes. It would give the government a political victory on this front and it would also allow the government and courts to be able to subpoena Brazilian user data.

Therefore, no major policy overtures are expected before the upcoming presidential election in Brazil, in October. The NSA issue remains unresolved and new information can see the light of day at any moment, and thus cast a shadow on any gesture either from Washington or from Brasilia. Brazil's recent efforts at the UN to restrain electronic surveillance is a clear example of how difficult it will be for both countries to converge on the issue.

Nevertheless, while expectations for more positive developments between the Brazil and the US will certainly shift negative, the good news is that the uptick in nationalist sentiment in Brasilia is unlikely to escalate into a full-blown trade war. Furthermore, increased tensions will not be enough to disrupt most existing negotiations in the bilateral business agenda, such as efforts to streamline visa issuance and to enhance cooperation on taxation issues, among others. While a slowdown is possible, negotiations on most of these topics tend to progress at a more technocratic level, independent of presidential diplomacy.

In the longer term, increasingly intertwined interests between American companies operating in Brazil and Brazilian companies operating in the US are likely to continue to set the tone of talks on most issues in the economic and commercial agenda once the dust of the incident settles. In fact, in recent years most bilateral cooperation has happened in spite of government action, and not because of it.

Until then, both countries will stand to lose with the episode. For the Obama administration, a closer rapport with Brazil could have added a fresh and more positive item into a troubled foreign policy repertoire. For Brasilia, a deeper engagement with the US would provide an opportunity for the Rousseff government to leave its mark on an otherwise unimpressive diplomatic record. For a country that aspires to climb the ladder of global power, recognition and even support from the world's enduring "lone superpower" is crucial.

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