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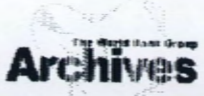

THE WORLD BANK
Washington, D.C.

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CLAUSEN: Briefing Brazil Visit - Vol. I. Background Information - March 9-13, 1982

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Clausen Briefing Papers - Visit to Brazil - March 9-13, 1982 - Background Information

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February 26, 1982

MR. CLAUSEN'S VISIT TO BRAZIL

March 9 - 13, 1982

VOL. I

Background

February 26, 1982

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List of participants and biographical sketches

February 26, 1982

PROGRAM FOR MR. CLAUSEN'S VISIT TO BRAZIL

(March 9 - 13, 1982)

Monday
March 8 - 9:20 PM Leave Bogota, Colombia for Manaus

Tuesday
March 9 - 1:15 AM Arrive Manaus from Bogota, Colombia.
Will be met at airport by Cabinet members of the Amazonas State Governor, Ambassador Leite Ribeiro and his wife from the Planning Ministry, and by H. van der Heijden, R. Skillings, F. Levy and D. Lallement.
Arrival statement at airport.

2:00 AM Arrive Hotel Tropical

9:30 AM Informal breakfast 1/

10:00 AM Leave for INPA (Instituto Nacional de Pesquisas da Amazonia - National Research Institute of the Amazon)

10:20 AM Arrive at INPA for a presentation by Dr. Bergamin (Director of the Institute) on the structure and activities of the Institute followed by a short visit of the Center for Forestry Research and of the Peixe Boi (Cattle Fish) Laboratory (unique in the world). The Governor of the State of Amazonas, Dr. Jose Lindoso, will participate in the visit, as well as Dr. Paulo Pinto Nery, Deputy Governor, Dr. Sergio Alfredo Pessoa Figueiredo, State Planning Secretary, and other state officials

11:15 AM Leave for Manaus port, CEASA terminal

11:30 AM Arrive at port and embark on the DORVAL PORTO for a
1:30 PM ride on the Amazon River (up to the junction of the three rivers: Negro, Amazon, Solimoes, if time permits) for a presentation of the economic activity of the region. On board will be the Governor and his wife (Dr. e Sra. Jose Lindoso), the State Secretaries of Planning (Dr. Sergio Alfredo Pessoa Figueiredo), Finance (Dr. Armando Claudio Dias dos Santos), and Rural Production (Dr. Bernardes Martins Lindoso), the Mayor of

1/ Arrangements are being made for program in Manaus to start a half hour later.

Manaus (Dr. Jose de Riveira Fernandes), the President of the Banco da Amazonia, S.A. (BASA) (Dr. Maury de Macedo Bringuel), the President of EMBRAPA (the Federal Agricultural Research Agency) (Dr. Eliseu Alves), and three prominent entrepreneurs. Lunch will be served on board.

- 1:30 PM Leave port for Ponte Pelada Airport, where Mr. Clausen will be met by a representative from CVRD (the Vice-President, Dr. França Perreira, or the Financial Director Dr. Samir Zraick)
- 1:45 PM Leave by two charter jets to Carajas
- 3:15 PM Arrive in Serra Norte Airport, Carajas, and met at airport by CVRD's President Mr. Eliezer Batista and Mrs. Batista.
(Mrs. Clausen to start separate program)
- 3:30 PM Visit Carajas mine, beneficiation plant, including
5:00 PM helicopter tour over the mine and part of railway construction works to Maraba
- 5:00 PM Enter into the natural forest (Igarapé), re-joined by Mrs. Clausen's party
- 5:45 PM Arrive at guest house for a rest
- 7:30 PM Dinner, including a presentation of the company and of the project by Dr. Batista, and a presentation of the project's financial plan by Mr. Samir Zraick, CVRD's Financial Director
- 9:30 PM Retire for the night

Wednesday

March 10 -

- 7:15 AM Informal breakfast
- 7:45 AM Leave guest house for Serra Norte airport
- 8:00 AM Leave Carajas by two charter jets for Teresina
- 9:30 AM Arrive in Teresina where Mr. Clausen will be met by the Governor of Piaui, Dr. Lucidio Portella, and by the Superintendent of SUDENE, Dr. Valfrido Salmito Filho, and the Deputy Superintendent, Dr. Joao Pessoa
- 9:30 AM Brief meeting with Piaui State Governor during plane change preparation
- 10:00 AM Leave Teresina in three smaller planes (one lent by Ceara state, two by SUDENE)
- 11:00 AM Arrive at Tiangua Airfield (Ceara) for visit to the Ipiabapa Rural Development Project. Met by the Governor of Ceara, Dr. Virgilio Tavora, the State Secretary of Planning, Dr. Luis Gonzaga Mota, the Secretary of the Commission for Agricultural Planning, Dr. Luis Carlos Pontes, and other State officials who will accompany the entire visit, and by Ms. Dona Dowsett and Mr. Luis Coriolo, Bank resident staff in Recife
- 11:15 AM Arrive at Project Agricultural Research Station for a general presentation of the project by the Director and a brief commented visit of the station
- 11:45 AM Leave station for Macajetuba
- 12:15 PM Arrive in Macajetuba to visit the settlement sub-project, including a short meeting with farmers and extension workers
- 12:45 PM Leave for Tiangua
- 1:15 PM Arrive at Hotel Serra Grande in Tiangua for lunch offered by the Governor, with State and project officials
- 2:45 PM Leave for Caroatai/Olinda
- 3:00 PM Arrive at Caroatai/Olinda for visit to the community center and a presentation of community activities, by Dona Nede. (Mrs. Clausen brief separate program). Concluding remarks on rural development project.

- 3:45 PM Leave for of Sao Benedito airfield; on the way, Mr. Clausen will be explained the differences in natural resources and production systems between the northern and southern region of the project area
- 4:30 PM Arrive at Sao Benedito airfield
- 4:45 PM Leave Sao Benedito airfield
- 5:45 PM Arrive Fortaleza and go to the Othon Imperial Hotel for a rest
- 7:45 PM Leave for the Governor's Palace
- 8:00 PM Arrive at the Palace for a dinner hosted by the Ceara Governor, Dr. Virgilio Tavora, and Dr. Salmite of SUDENE, for Mr. and Mrs. Clausen and for the Governors of Northeast states, and in which will also participate the President of the Northeast Development Bank (Dr. Camillo Calazans de Magalhaes), and 2 or 3 entrepreneurs from the Northeast. SUDENE intends to make a presentation on the Bank-financed projects in the Northeast, and to discuss future Bank assistance in the Northeast
- 10:00 PM Leave Governor's Palace for hotel
- 10:15 PM Arrive at hotel and retire for the night

Thursday

March 11 -

- 7:00 AM Informal breakfast at the hotel
 - 7:30 AM Leave for the airport
 - 8:00 AM Leave Fortaleza on VP 263
 - 11:10 AM Arrive Brasilia
Met by Dr. Carlos Langoni, President of the Central Bank, and Mrs. Langoni, and by Mr. D. Koromzay of the Brazil Division, and by Mr. Watanatada, Bank resident staff with GEIPOT, Brasilia
 - 11:45 AM Arrive at the Hotel Nacional
 - 12:15 AM Leave the hotel for the Planning Ministry (SEPLAN) (Mrs. Clausen to start separate program)
 - 12:30 PM Meeting with Planning Minister Mr. Antonio Delfim Netto
 - 1:15 PM Lunch offered by the Government in the Planning
 - 2:45 PM Ministry, with the Ministers of Planning, Finance, Transport, Interior, Industry and Commerce, Agriculture, External Relations, the President of the Central Bank, and the President of SUDECO
 - 2:45 PM Return to the hotel for a rest
 - 3:45 PM Leave hotel for the Ministry of Finance
 - 4:00 PM Joint Meeting with Minister Galveas and Dr. Langoni at the Ministry of Finance
 - 4:45 PM Leave the Ministry of Finance for the Planalto Palace
 - 5:00 PM Meeting with President Figueiredo
 - 5:30 PM Leave the Planalto Palace for the Secretariat of Planning
 - 6:00 PM Press Conference (in the Auditorium of the
 - 7:00 PM Planning Secretariat)
 - 7:30 PM Return to Hotel
- Evening free

Friday

March 12 -

- 7:15 AM Informal breakfast
- 8:00 AM Leave Hotel for airport
(Mrs. Clausen to start separate program, flying to Sao Paulo on commercial airline)
- 8:30 AM Leave Brasilia by Government jet
- 10:00 AM Arrive at Bauru airfield, near Jau, where Mr. Clausen will be met by the Sao Paulo State Secretary of Planning (Dr. Rubens vaz da Costa), the State Finance Secretary (Dr. Affonso Pastore), and other officials
- 10:30 AM Arrive Diamante sugar cane refinery
Presentation of national PROALCOOL program (most probably by Minister of Industry and Commerce Dr. Joao Camilo Penna), followed by a presentation of the State alcohol program and of the improvement of the Tiete waterway for the "alcohol corridor"
- 12:30 PM Lunch in an agricultural estate (FAZENDA) with representatives of agro-industrial community
- 2:15 PM Leave fazenda for Bauru airfield
- 2:30 PM Leave Bauru airfield for Sao Paulo
- 3:30 PM Arrive Sao Paulo
Met by Sao Paulo Mayor (Dr. Reynaldo E. de Barros), for a visit of the metropolitan area and discussion of metropolitan issues
(urban planning, health, growth, etc.)
- 5:00 PM Arrive at Maksood Plaza Hotel
- 6:00 PM Press conference
- 6:45 PM
- 7:00 PM Leave for Governor's Palace
- 7:30 PM Cocktail at Governor's Palace with prominent officials, bankers and industrialists of Sao Paulo followed by a dinner offered by the Governor with a more restricted group of officials, industrialists, bankers and their spouses
- 10:30 PM Leave Governor's Palace
- 11:00 PM Arrive at Hotel to retire for the night

Saturday

March 13 -

- 7:45 AM Informal breakfast
- 8:15 AM Leave hotel for Congonhas airport
- 8:45 AM Arrive at airport
- 9:00 AM Leave Congonhas airport, Sao Paulo for Rio on VARIG 613
- 10:00 AM Arrive at Galeao Airport
- 10:30 AM Arrive at Hotel Meridien
- 11:00 AM Meeting with the President of BNDE, Dr. Luis Sande, at Hotel Meridien
- 11:45 AM Meeting with President of ELETROBRAS, Gen. Jose Costa Cavalcanti, at Hotel
- 12:30 PM Leave Hotel
- 1:00 PM Leave for port for a lunch tour of Guanabara bay
- 3:30 PM on yacht at invitation of the Mayor of Rio de Janeiro (Dr. Julio Coutinho), and the President of the State Bank of Rio de Janeiro (BANERJ) (Dr. Israel Klabin). On board will also be the Presidents of ELETROBRAS, BNDE, PETROBRAS, and representatives of the business and banking community of the State of Rio, and their spouses
- 4:00 PM Arrive back at Hotel
- 5:30 PM Meeting with President of PETROBRAS, Dr. Shigeaki Ueki, at Hotel
- 6:30 PM Cocktail offered by Mr. and Mrs. Clausen for about
- 8:30 PM 30 people, including the Mayor of Rio and state officials, and representatives of federal institutions headquartered in Rio
- 9:00 PM Leave for airport/Departure Statement
- 10:30 PM Depart for New York/Washington (PAN AM 202)

February 26, 1982

PROGRAM FOR MRS. CLAUSEN'S VISIT TO BRAZIL

(March 9 - 13, 1982)

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(Mr. Clausen to start separate program)
- 3:30 PM Presentation of Carajas urban development plans by
5:00 PM Ms. Maria de Lourdes Freitas
- 5:00 PM Enter into the natural forest (Igarapé), re-joining Mr. Clausen's party
- 5:45 PM Arrive at guest house for a rest
- 7:30 PM Dinner, including a presentation of the company and of the project by Dr. Batista, and a presentation of the project's financial plan by Mr. Samir Zraick, CVRD's Financial Director
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- 2:45 PM Leave for Caroatai/Olinda

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- 3:45 PM Leave for of Sao Benedito airfield; on the way, Mr. and Mrs. Clausen will be explained the differences in natural resources and production systems between the northern and southern region of the project area
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March 11 -

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 - 11:10 AM Arrive Brasilia
Met by Dr. Carlos Langoni, President of the Central Bank, and Mrs. Langoni, and by Mr. D. Koromzay of the Brazil Division, and by Mr. Watanatada, Bank resident staff with GEIPOT, Brasilia
 - 11:45 AM Arrive at the Hotel Nacional
 - 12:15 AM Mr. Clausen to start separate program
 - 1:15 Leave the hotel with Mrs. Langoni for the Naval Club
 - 1:30 PM Lunch offered by Mrs. Langoni for Mrs. Clausen, with Mrs. Lea Leal, President of the Brazilian Legion, Mrs. Elizabeth Leite Ribeiro, and other ladies (up to 10). Exposé on the activities of the Brazilian Legion in the whole country.
 - 3:30 PM Leave the Naval Club with Mrs. Langoni, and Mrs. Leite Ribeiro
 - 3:50 PM Arrive at the "Lar Maria Magdalena" (Bandeirantes Nucleus) which gives assistance to children and to the elderly
 - 4:30 PM Leave "Lar Maria Magdalena" and proceed to visit the city of Brasilia
 - 6:30 PM Return to Hotel
- Evening free

Friday

March 12 -

- 7:15 AM Informal breakfast
- 8:00 AM Mr. Clausen to leave hotel for airport
- 8:45 AM Mrs. Clausen to leave hotel for airport with Mrs. Leite Ribeiro
- 9:35 AM Leave Brasilia for Sao Paulo on VP 231
- 11:00 AM Arrive Sao Paulo airport, where Mrs. Clausen will be met by Mrs. Rubens Vaz da Costa, wife of State Planning Secretary
- 11:45 AM Arrive at Maksood Plaza Hotel
- 12:30 PM Leave hotel for lunch with Mrs. Rubens Vaz da Costa, Mrs. Leite Ribeiro, and other prominent women of Sao Paulo
- 3:00 PM Visit of cultural centers of Sao Paulo
- 6:00 PM Arrive at hotel
- 7:00 PM Leave for Governor's Palace
- 7:30 PM Cocktail at Governor's Palace with prominent officials, bankers and industrialists of Sao Paulo followed by a dinner offered by the Governor with a more restricted group of officials, industrialists, bankers and their spouses
- 11:00 PM Leave Governor's Palace
- 11:30 PM Arrive at Hotel to retire for the night

Saturday
March 13

- 7:45 AM Informal breakfast
- 8:15 AM Leave hotel for Congonhas airport
- 8:45 AM Arrive at airport
- 9:00 AM Leave Congonhas airport, Sao Paulo for Rio on VARIG 613
- 10:00 AM Arrive at Galeao Airport
- 10:30 AM Arrive at Hotel Meridien
- 11:15 AM Visit of an urban project called Projeto Rio, with Mr. and Mrs. Gustavo Heck, Ms. Ellena Azevedo Santos, and Ms. Laura Vianna of BNH
- 1:00 PM Leave for port for a lunch tour of Guanabara bay
3:30 PM on yacht at invitation of the Mayor of Rio de Janeiro (Dr. Julio Coutinho), and the President of the State Bank of Rio de Janeiro (BANERJ) (Dr. Israel Klabin). On board will also be the Presidents of ELETROBRAS, BNDE, PETROBRAS, and representatives of the business and banking community of the State of Rio, and their spouses
- 4:00 PM Arrive back at Hotel
- 6:30 PM Cocktail offered by Mr. and Mrs. Clausen for about
8:30 PM 30 people, including the Mayor of Rio and state officials, and representatives of federal institutions headquartered in Rio
- 9:00 PM Leave for airport
- 10:30 PM Depart for New York/Washington (PAN AM 202)

B

DRAFT

February 23, 1982

President Clausen's Brazil Visit

Brasilia Press Conference

Suggested Opening Remarks

Ladies and Gentlemen:

I am delighted to have this opportunity to meet with you. May I say before we begin the questioning that I have had a very productive and instructive series of meetings and visits since my arrival. The meetings with your president, the other government officials and dignitaries have been candid, thorough and most fruitful. My visits to the actual sites of ongoing projects that the World Bank is helping to finance in Ceara state and elsewhere have also been very beneficial.

The experience has more than confirmed my early impression of the relationship between the World Bank and Brazil as being a true partnership in development. It is a relationship that I, as president, fully intend to encourage and foster.

In that connection, I would like to -- as they say in my country -- take the bull by the horns and begin our session with a statement about an issue that I understand has concerned many of you -- the World Bank's graduation policies. There may have been some confusion in certain circles about this but our policies, as recently affirmed by the Board of Executive Directors, are quite clear. They are as follows:

- a) Graduation is a process, not an abrupt or automatic severing of relations between the Bank and its borrowers;
- b) Graduation is considered -- and I repeat considered -- when a country has reached per capita GNP level of \$2,650. When this occurs, a process of review commences which in time -- say about five years or so -- could lead to a phasing down and ultimately a cessation of Bank lending;
- c) During this review process the country's overall economic situation and its capacity to sustain a long term development program is carefully examined with particular reference to two important factors which will influence the pace of graduation -- (i) access to external capital markets on reasonable terms and (ii) the extent of progress in establishing key institutions for economic and social development.
- d) Graduation does not mean the end of the relationship between the Bank Group and its Borrowers. We are prepared to offer continued assistance of the following types (i) technical assistance on a reimbursable basis for project or non-project activities; (ii) continued access to the Bank's Economic Development Institute courses and (iii) continued eligibility for IFC operations.

Now, I would be pleased to have your questions.

February 24, 1982

President Clausen's Brazil Visit

Sao Paulo Press Conference

Suggested Opening Remarks

Ladies and Gentlemen:

I am pleased to have this opportunity to meet with you near the conclusion of my visit to Brazil. May I say that I have thoroughly enjoyed being in your country these last several days -- I have had constructive discussions with your President and other leaders, I have seen first hand how projects financed in part by the World Bank group are being executed, I have learned more about your economic situation and the immense progress the Brazilian people are making in developing this great country.

[Reference to main issues discussed on visit so far ... to be provided on basis of the discussions].

[Reference to main impressions of visit ... to be provided].

e.g. - Brazil's dynamism

- Government economic policies
- Successful performance on trade account
- Prospects for lower inflation and resumption of growth
- Other

[Reference to Bank's lending strategy and plans for future Bank lending for Brazil in support of Brazil's own priorities: energy; agriculture; and exports].

We welcome the opportunity to participate and contribute to Brazil's development, and look forward to continued collaboration in the future.

Now, may I have the first question.

DEPARTURE STATEMENT

C

background notes

Brazil



United States Department of State
Bureau of Public Affairs

September 1981



Official Name: Federative Republic of Brazil

PROFILE

People

NATIONALITY: *Noun and adjective*—Brazilian(s). **POPULATION** (1980): 119 million. **ANNUAL GROWTH RATE** (1980): 2.47%. **DENSITY:** 14.4 per sq. km. (36/sq. mi.). **ETHNIC GROUPS:** Portuguese, Italian, German, Japanese, African, American Indian; 60% white, 30% mixed, 8% black, 2% Indian (1960 est.). **RELIGION:** Roman Catholic (93%). **LANGUAGES:** Portuguese (official), English. **LITERACY** (1978): 76% of adult population. **HEALTH:** *Infant mortality rate* (1980)—82.7/1,000. *Life expectancy* (1974-75)—60 yrs. **WORK FORCE** (44 million in 1977): *Agriculture*—36%. *Industry*—23%. *Services*—41%. *Trade union membership*—about 6 million.

Geography

AREA: 8,512,000 sq. km. (3,290,000 sq. mi.). **CITIES** (1980): *Capital*—Brasilia (pop.

1.2 million). *Other cities*—Sao Paulo (8.5 million), Rio de Janeiro (5.1 million), Belo Horizonte (1.76 million), Salvador (1.5 million), Fortaleza (1.3 million), Recife (1.2 million), Porto Alegre (1.1 million), Novo Iguacu (1.1 million), Curitiba (1.1 million). **TERRAIN:** Dense forests; semiarid scrubland; rugged hills and mountains; rolling plains; and coastal strip. **CLIMATE:** Mostly tropical or semitropical with temperate zone in the south.

Government

TYPE: Federal republic. **INDEPENDENCE:** September 7, 1822. **CONSTITUTION:** January 24, 1967.

BRANCHES: *Executive*—president (chief of state and head of government) elected to a single 6-yr. term. *Legislative*—Senate (66 members elected to 8-yr. terms), Chamber of Deputies (420 members elected to 4-yr. terms). *Judicial*—Supreme Federal Tribunal.

PARTIES: *Government majority party*—Social Democratic Party (PDS). *Opposition parties*—Party of the Brazilian Democratic Movement (PMDB), Popular Party (PP), Democratic Workers Party (PDT), Workers Party (PT), Brazilian Labor Party (PTB). **SUFFRAGE:** Compulsory over 18, except for illiterates.

SUBDIVISIONS: 22 states, 4 territories, federal district (Brasilia).

DEFENSE: 7% of government budget.

FLAG: A yellow diamond on a green field; a blue globe with 23 white stars and a band with "Ordem e Progresso" centered on the diamond. The globe represents the sky and the vastness of the states and capital, and green and yellow signify forest and mineral wealth.

Economy

GDP (1980): \$237 billion: agriculture 12%; industry 38%; services 50%. **ANNUAL GROWTH RATE** (1980): 8.0%. **PER**

CAPITA GDP (1980): \$1,995.

NATURAL RESOURCES: Iron ore, manganese, bauxite, nickel, uranium, gemstones.

AGRICULTURE: *Land*—17% arable, cultivable, or pasture. *Products*—coffee, soybeans, sugarcane, cocoa, rice, beef, corn.

INDUSTRIES: Steel, chemicals, petrochemicals, machinery, motor vehicles, consumer durables, cement, lumber, shipbuilding.

TRADE (1980): *Exports*—\$20.1 billion: manufactures 56%, coffee 13.8%, soybeans 11.2%, iron ore 7.7%, sugar 6.4%. *Major markets*—US 17.3%, FRG 6.7%, Japan 6.2%, Netherlands 5.8%, Argentina 5.3%. *Imports*—\$23 billion: oil and other fuels 44%, capital goods 30.3%, consumer goods 19.1%. *Major non-oil suppliers*—US 17.7%, FRG 6.9%, Japan 4.6%, Canada 3.6%, Argentina 3.3%.

OFFICIAL EXCHANGE RATE (June 1981): 90.95 cruzeiros = US\$1 (changes frequently).

FISCAL YEAR: Calendar year.

ECONOMIC ASSISTANCE PROGRAMS (1979): *International Development Agencies*—\$8.2 billion. *US*—Export-Import Bank loans \$36.8 million; PL 480 (Food for Peace) \$600 million.

FOREIGN INVESTMENT (registered with Central Bank, 1979): \$15 billion. *Sources*—US \$4.4 billion; FRG \$2.5 billion; Switzerland \$1.9 billion; Japan \$1.5 billion.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN, General Agreement on Tariffs and Trade (GATT), Group of 77, International Monetary Fund (IMF), Organization of American States (OAS), Rio Pact, Latin American Integration Association (ALADI), International Bank for Reconstruction and Development (IBRD or World Bank), International Sugar Organization (ISO), International Cocoa Organization (ICCO), INTELSAT.

PEOPLE

With a 1980 population of 119 million, Brazil is the most populous country in Latin America and ranks sixth in the world. Most of the people live in the south-central area that includes the industrial cities of Sao Paulo, Rio de Janeiro, and Belo Horizonte. Urban growth has been rapid; by 1980 the urban sector included almost two-thirds of the total population. This increasing trend toward urbanization has aided economic development but at the same time has created serious social and political stresses in the major cities.

Four ethnic groups make up the Brazilian population: the indigenous Indians; the Portuguese, who began colonizing in the 16th century; Africans brought to Brazil as slaves; and various European and oriental immigrant groups that have settled in Brazil since the mid-19th century. The Portuguese who colonized Brazil often intermarried with the Indians, and intermarriage with slaves was common later. Though the basic ethnic stock of Brazil is Portuguese, and most Brazilians consider themselves "white," the African and Indian influence in Brazil's racial makeup is significant, according to census figures.

From 1875 until 1960, about 5 million Europeans emigrated to Brazil, settling mainly in the four southern states of Sao Paulo, Parana, Santa Catarina, and Rio Grando do Sul. In order of numbers, after the Portuguese, the immigrants have come from Italy, Germany, Spain, Japan, Poland, and the Middle East. The largest Japanese community in the world, outside of Japan, is in Sao Paulo. Despite class distinctions, national solidarity is strong and racial friction is minimal.

Indigenous full-blooded Indians, located mainly in the northern and western border regions and in the upper Amazon Basin, constitute less than 1% of the population. Their numbers are rapidly declining as contact with the outside world and commercial expansion into the interior increase. Brazilian Government programs to establish reservations and to provide other forms of assistance have been in effect for years, but problems resulting partly from limited resources and poorly trained personnel have been the subject of controversy.

Brazil is the only Portuguese-speaking nation in the Americas. English is the second language for most of the well educated.

About 93% of the population belong to the Roman Catholic Church, although spiritualism is also popular.

GEOGRAPHY

Brazil, occupying the east-central part of South America, spreads over almost one-half of the continent. It is the fifth largest country in the world and shares common borders with every South American country except Ecuador and Chile. Brazil's Atlantic coastline is more than 7,200 kilometers (4,500 mi.) long. More than 90% of the population live on 10% of the land, a 320-kilometer-wide (200 mi.) zone bordering the South Atlantic Ocean south of Fortaleza, in Ceara State, to the Uruguayan border.

The country is divided into four topographic regions:

- The densely forested northern lowlands covering about one-half of the interior and containing the undeveloped Amazon River Basin;
- The semiarid scrubland of the northeast;
- The rugged hills and mountains interspersed with gently rolling plains of the central west and south; and
- A narrow coastal belt.

Although about one-half of Brazil lies less than 194 meters (650 ft.) above sea level, most populous areas are higher. About 4% of the country has an altitude over 900 meters (3,000 ft.). Many of the highest areas are located close to the coast, and many rivers have their sources not far from the Atlantic Ocean. For this reason, some rivers drain away from the coast northward or westward.

About one-half of Brazil is covered by forests. The largest rainforest in the world is located in the Amazon Basin and is so impressive in its character and extent that the entire Amazon region is identified with it. Eastern Brazil has tropical, semideciduous forest, good for agriculture because it yields crops for several years until the nutrients in its small amount of humus are exhausted. The softwood forests of the southern highlands provide most of the construction timber used in Brazil. These forests are being cut down so fast that they are in danger of extinction within the next few decades. The thorn forests of the northeastern interior contain dry, cactus-infested, drought-resistant vegetation, its sparseness due as much to overgrazing and overcultivation as to the unreliability of rain.

Central Brazil—the States of Mato Grosso, Goias, and parts of Minas Gerais and Sao Paulo—is grassland, with scat-

tered trees. Unlike the grassy plains of North America, the Brazilian grasslands are sterile, and only grass flourishes there.

The northern and coastal regions of Brazil have a warm, humid climate with moderate to heavy rainfall. June through August is normally cool and dry, and the remaining months are warm and wet. Freezing temperatures occur occasionally in the southernmost part of the country. The west central region, containing the capital, Brasilia, is warm and dry for most of the year, with a short, wet summer.

HISTORY

Brazil was discovered in 1500 by the Portuguese navigator Pedro Cabral. It was ruled from Lisbon as a colony until 1807 when the Portuguese royal family fled from Napoleon's army and established the seat of government in Rio de Janeiro. Brazil became a kingdom under Dom Joao VI, who returned to Portugal in 1821 leaving his son, Dom Pedro I, as regent. With the people's support, Dom Pedro I declared Brazil's independence on September 2, 1822, and became emperor. Portugal was unable to offer much resistance. The second emperor, Dom Pedro II, ruled from 1831 to 1889, when a federal republic was established.

From 1889 to 1930, political activity in Brazil was contained within the framework of a constitutional democracy characterized by a limited franchise, with the presidency alternating between the dominant States of Sao Paulo and Minas Gerais. This period of Brazilian history ended with a military coup led by Getulio Vargas, Brazil's dictator until 1945. From 1945 to 1961, Eurico Dutra, Vargas, Juscelino Kubitschek, and Janio Quadros were the elected presidents. When Quadros resigned in 1961, he was succeeded by Vice President Joao Goulart.

The recent political history of Brazil begins with the military-led revolution of March 31, 1964. This move was a reaction against the administration of Goulart, whose 3 years of office were characterized by runaway inflation, economic stagnation, and increasing domination by radical political philosophies. Army Marshal Humberto Castello Branco was chosen to be president by the military and elected by the National Congress on April 11, 1964. He was followed in the presidency by retired Army Marshal Artur da Costa e Silva, who served until incapacitated by a stroke in August 1969. Gen. Emilio Garrastazu Medici was selected by the

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armed forces high command and approved by the Congress to succeed the ailing Costa e Silva. After consultation with the influential military officials and civilians, President Medici expressed his preference for retired Gen. Ernesto Geisel to succeed him. The electoral college formally elected Geisel and he took office in March 1974. Subsequently, retired Gen. Joao Baptista de Oliveira Figueredo succeeded Geisel for the 1979-85 presidential term and carried forward the political liberalization process he had initiated. Figueredo became the candidate of the National Renewal Alliance (ARENA), the official government party, in April 1978. He was elected in the indirect national election of October 1978 and inaugurated in March 1979.

GOVERNMENT

According to the constitution promulgated January 24, 1967, Brazil is a federative republic with broad powers granted to the federal government. At the national level, the constitution establishes a presidential system with three "independent and harmonious powers"—executive, legislative, and judicial. It forbids delegation of powers and provides for a series of checks and balances.

The president (chief of state and head of government) is elected to a 6-year term by an electoral college composed of members of congress and representatives of state legislatures and municipalities. The president is assisted by a vice president (elected with the president), a cabinet (presidentially appointed), and specialized administrative and advisory bodies.

The constitution gives the president power to intervene directly in individual states and municipalities temporarily when the president determines that a state of emergency exists. The president can issue decrees with the force of law in matters concerning national security and public finance, although recent reforms have ended the executive branch's extraconstitutional powers.

The bicameral National Congress consists of 66 members in the Senate, 3 from each state, elected to 8-year terms. The Chamber of Deputies has 420 members elected at large in each state and territory to 4-year terms on a basis of proportional representation.

The apex of the judicial system is the Supreme Federal Tribunal. Its 11 justices, including the chief justice, are appointed by the president to serve until age 70.

Brazil is divided administratively into 22 states, 4 territories, and a federal district, Brasilia. The framework of the state and local governments closely parallels that of the federal government. Governors, indirectly elected for 4-year terms, have broad powers analogous to the president's, except that they are not empowered to issue decrees having the force of law.

All powers not explicitly forbidden by the constitution are reserved to the states, empowered to establish their own constitutions and governments in accordance with the fundamental principles of the federal constitution. The autonomy of the municipalities, the only territorial subdivisions of the states, is also guaranteed by constitutional provisions. In practice, the broad powers granted to the Union and the financial

weakness of the states and municipalities have resulted in a strongly centralized system.

The four territories, remote frontier areas, are administered by the federal government. The federal district, moved from Rio de Janeiro to Brasilia in April 1960, is ruled by a presidentially appointed governor.

In November 1980, the Congress adopted a constitutional amendment calling for the direct election of state governors and of all senators, beginning with the 1982 election.

Principal Government Officials

President—Gen. (ret.) Joao Baptista de Oliveira **Figueiredo**
Vice President—Antonio Aureliano **Chaves** de Mendonca
President's Civil Household—Joao **Leitao** de Abreu
President's Military Household—Gen. Danilo **Venturini**

Cabinet

Foreign Affairs—Ramiro Elisio Saraiva **Guerreiro**
Justice—Ibrahim **Abi-Ackel**
Finance—Ernane **Galveas**
Education—Brig. Gen. Rubem Carlos **Ludwig**
Labor—Murillo **Macedo**
Health—Waldyr **Arcoverde**
Welfare and Social Security—Jair **Soares**
Communications—Haroldo Correa de **Mattos**
Mines and Energy—Cesar Cals de Oliveira Filho
Industry and Commerce—Joao Camilo **Penna**
Planning Secretary of the Presidency—Antonio **Delfim Netto**
Agriculture—Amaury **Stabile**
Transportation—Eliseu **Resende**
Interior—Mario David **Andreazza**
Army—Gen. Walter **Pires** de Carvalho
Navy—Adm. Maximiano Eduardo da Silva **Fonseca**
Aeronautics—Brig. Gen. Delio Jardim de **Mattos**
National Intelligence Service—Gen. Octavio Aguiar de **Medeiros**
Ambassador to the United States—Antonio Azeredo da **Silveira**
Ambassador to the OAS—Alarico **Silveira** Junior
Ambassador to the United Nations—Sergio **Correa da Costa**

Brazil maintains an embassy in the United States at 3006 Massachusetts Avenue NW., Washington, D.C. 20008 (tel. 202-797-0100). Consulates general

are at New Orleans, New York, Chicago, and Los Angeles, and consulates are at Miami, Houston, Dallas, and San Francisco.

POLITICAL CONDITIONS

After the 1964 revolution, the 13 political parties were abolished and two political organizations, the pro-government National Renewal Alliance (ARENA) and the opposition Brazilian Democratic Movement (MDB), were formed. Executive branch decrees issued in April 1977 insured ARENA a majority in the federal Senate and Chamber of Deputies in the 1978 popular congressional elections, although the opposition MDB won a majority of votes cast in those elections. ARENA also won 21 of the 22 indirect 1978 gubernatorial elections. Under an administration-sponsored bill approved by the Congress in 1979, the existing two-party system was replaced by a limited multiparty system.

Five parties are in the process of establishing themselves under the party reorganization law:

The Social Democratic Party (PDS) is an outgrowth of the old government party, ARENA. Its party platform has been liberalized in an attempt to attract the politically important urban population. The PDS is particularly strong in rural areas.

The Party of the Brazilian Democratic Movement (PMDB) is the declared continuation of the now-defunct official opposition party, the MDB. It is attempting to retain the support it generated from the growing urban middle class, intellectuals, and workers. The party platform advocates major modifications in the Brazilian economy, especially in the areas of income distribution, advancement of disadvantaged groups, and full restoration of political democracy.

The Popular Party (PP) has been described variously as moderate, liberal, centrist, and neoconservative. Its main bases of power are the State of Minas Gerais and Rio de Janeiro, and its platform is similar to that of the PDS, but with more populist overtones.

The pre-1964 Brazilian Labor Party (PTB) has experienced major internal convulsions in its efforts to reestablish itself. A power struggle between two opposing factions has led to the formation of the Democratic Workers Party (PDT). Both parties are modeled after European Social Democratic parties, but they are more socialistic and nationalistic.

The Workers Party (PT) is competing with the PMDB, PTB, and PDT for the urban unions' support. The Workers Party has attracted some Brazilian leftists and a few labor leaders but has not been able to agree on a definite party platform other than its opposition to the current government's policies. All of the opposition parties must resolve internal organizational problems if the political left is to be of any consequence in the general elections of 1982.

The Brazilian Communist Party has not been allowed to register with the Superior Electoral Tribunal.

Citizens may participate in government through suffrage, political party affiliation, membership in interest groups, and direct approach to officeholders. Voting is secret and mandatory for all adult literates; illiterates may not vote. The media freely express a full range of political views.

ECONOMY

Brazil's diversified economy ranges from the primitive Amazon region to thriving Sao Paulo, the largest and most modern industrial complex in Latin America. Industrial development has been more concentrated in the southeastern States of Minas Gerais, Rio de Janeiro, Sao Paulo, Parana, and Rio Grande do Sul. The Amazon Basin, comprising the vast north-central and western areas, has been unexploited until recently.

In 1980 Brazil's gross domestic product (GDP) was \$237 billion, with a per capita GDP of almost \$2,000. During the 1950s the GDP grew at an annual rate of more than 6%. It slowed from 1963 to 1965 but averaged above 11% annually during the "Economic Miracle" from 1968 to 1973. The growth rate has slowed to a 1974-80 average of 6.5% since the onset of rapidly rising petroleum costs. Brazil has the 10th largest economy in the world and is expected to surpass Canada and Italy before the end of the century.

Agriculture, Industry, and Natural Resources

The agricultural sector employs 36% of Brazil's population and accounts for about 12% of its GDP and 46% of the country's exports. Except for wheat, Brazil is largely self-sufficient in food. The country is the world's leading exporter of coffee, the second largest exporter of cocoa and soybeans, and a ma-

ajor exporter of meat, sugar, and cotton. To expand its agricultural exports, Brazil has embarked on developing new areas for cultivation. Most important of these is soybean production in the States of Mato Grosso do Sul, Rio Grande do Sul, Sao Paulo, and Parana. Brazil also seeks to expand its cultivation of sugarcane, the raw material in the production of ethyl alcohol fuel.

Brazil's power, transportation, and communications systems have improved substantially in the past few years, providing a necessary base for economic development. The country has a large and increasingly sophisticated industrial base, ranging from basic industries such as steel, chemicals, and petrochemicals to finished consumer goods. Industry, the greatest contributor to economic growth, accounts for almost 40% of the GDP and employs 23% of the work force.

Brazil is the third leading producer of hydroelectric power in the world, with a generating capacity of nearly 40,000 megawatts. Hydroelectric projects, such as the 12,600-megawatt Itaipu Dam on the Parana River, as well as several other large dams in the northeast, will substantially increase capacity in the 1980s. Only an estimated 10% of Brazil's hydroelectric potential has been tapped.

Known mineral resources are extensive and increasing with additional exploration. Iron and manganese reserves are especially large, providing important sources of export earnings and industrial raw materials. Deposits of nickel, tin, chromite, bauxite, beryllium, copper, lead, tungsten, and zinc, as well as lesser known minerals, are available. Exploration for new domestic petroleum sources continues. The search is especially important since Brazil's present bill for imported oil averages more than \$800 million per month. In similar short supply is high-quality coal, especially of the coking grade, which the country's burgeoning steel industry requires. However, the government is beginning to implement coal extraction and gasification projects to tap Brazil's ample deposits of low-grade coal in the south.

Brazil's first commercial nuclear reactor, Angra I, is scheduled to begin operations in 1981. This reactor, a 626-megawatt pressurized water reactor built by Westinghouse, is located in the State of Rio de Janeiro. Site preparations continue for Angra II, a 1,245-megawatt pressurized water reactor, the first to be built under the F.R.G./Brazil Nuclear Accord of 1975. It is scheduled to be completed by 1987. The site for Angra III has yet to be ap-



Sao Francisco River at Catina.

proved by the Brazilian Nuclear Energy Commission. All three plants will be located in the State of Rio de Janeiro.

The Brazilian Government has embarked on an ambitious program to reduce dependence on imported oil, which supplies over 80% of the country's needs. In addition to developing hydroelectric, nuclear, and coal resources, Brazil has become a world leader in the development of alcohol fuel, derived from sugarcane. Brazilian gasoline is a mixture containing 20% ethyl alcohol, and the government's objective is to convert the country's automobiles to 100% alcohol power. In 1979 Brazilian auto manufacturers began large-scale production of alcohol-powered cars, and in 1980 some 260,000 rolled off the assembly lines. Nearly all official Brazilian Government vehicles now have alcohol-powered engines. The government estimates that by 1985 more than one-half of Brazil's new cars will be alcohol-powered, permitting savings on imported oil of nearly 500,000 barrels per day.

Economic Strategy

Since the 1964 revolution, the Brazilian Government has focused on three major economic goals: high growth rates, control of inflation, and gradual improvement of the poorest sectors of the economy. The first 3 years of the new government were a period of economic stabilization and basic institutional reform, with emphasis on controlling inflation rather than growth, which averaged 3.6% annually for 1964-67. During that period, inflation was reduced from over 90% in 1964 to an annual rate of about 25%—largely by reducing the central government's deficit, by monetary contraction, and by wage and price controls.

Reform of public administration, the tax structure, and monetary and capital market institutions greatly improved the government's ability to implement its economic programs. During this period Brazil also developed the system of "monetary correction"—the periodic adjustment of key prices (e.g., wages, financial instruments, utility rates, interest on savings and loans) roughly in proportion to increases in the overall price index. This mechanism allowed the Brazilian economy to tolerate fluctuations in the inflation rate without serious distortions in relative prices. Application of the correction concept to the exchange rate (the "crawling peg")—together with government programs to encourage expansion and diversification of exports—led to a marked improve-

Courtesy United Nations

ment in the balance of payments and helped restore Brazil's position in international financial markets.

By 1968 the government judged that its economic stabilization program had succeeded enough to warrant an expansionary policy, focusing especially on industrial growth. During the next 6 years (1968-73), real economic growth averaged more than 11% annually. The government provided economic facilities—transport, power, telecommunications—for such capital goods industries as iron and steel where the scale of efficient production is especially large. In the private sector, the government encouraged exports through fiscal incentives and subsidies not only as a means to improve its balance of payments but also as a way to broaden the scale and improve the efficiency of industrial operations.

One of the government's priorities has been the integration of Brazil's least developed regions into the modern economy. The overall problem of unequal income distribution and absolute poverty is concentrated in the northeast. In contrast, the vast Amazon area and the west-central region are underpopulated and largely unexplored. Special governmental programs to assist the northeast—including a tax credit mechanism for investment in the area—date back to the 1950s. In 1970, the National Integration Program was announced to finance infrastructure programs in Amazonia and the northeast. The keystone of this program was to be a 14,400-kilometer (9,000 mi.) road network, including the Transamazonian Highway. In recent years, financial constraints and environmental concerns have caused a partial reassessment of development activities in this region, and the road system is far from completion. Although Amazon development programs continue, their environmental impact is closely monitored.

The Brazilian Government has chosen an indirect attack on the extensive poverty in urban and rural areas. The official position is that the only solution is sustained high industrial growth which will eventually absorb the unemployed and underemployed labor into the modern sector. As a complement to this policy, the government has emphasized improving educational opportunities for all levels of the population and has expanded its social services in such fields as health and housing. In 1970 the Social Integration Program was instituted to lessen the imbalance in the distribution of recent income gains. The program requires employers to pay into an investment fund, on behalf of their workers, sums which are placed in

the capital market or other institutions that provide financing for the private sector. The income generated is made available to the participating workers for specific uses, such as retirement annuities or purchasing a house.

The Figueiredo administration has acknowledged the need for several basic adjustments in the government's economic priorities. The most pressing need stems from the sharp rise in petroleum prices, which has placed increasing pressure on the balance of payments and the inflation rate. Brazil has been forced to alter its energy policies toward developing alternative sources, particularly alcohol, hydroelectric, coal, and nuclear power. Another priority has been agricultural development, expected to provide plentiful, low-cost food for domestic consumption as well as large exportable surpluses. Redressing the balance-of-payments deficit has led the government to stimulate export industries. In addition to agriculture, Brazil has increased its sales abroad of computers, ships, automotive products, machinery, steel products, minerals, and precision instruments. Efforts are also being made to strengthen key domestic industries, with special emphasis on import substitution, as a means of conserving foreign exchange and as a step toward further industrial development.

Inflation and Financial Policy

For the last 2 years, Brazil has been fighting an inflationary spiral in which the inflation rate increased from 40% at the end of 1978 to over 120% in early 1981. Inflation has been fueled by constant increases in the price of imported oil, large wage settlements, monetary expansion, government deficit spending (including spending by government-owned companies), and large government subsidies. Food prices, expected to decline following 1980's bumper harvest, have continued to rise. Early in 1980 the government began implementing a series of policies intended to curb inflation, including a tighter monetary expansion policy, stricter credit and price controls, and reduced government spending. The government's approach to reducing inflation and economic growth is gradual, however, to avoid inducing an economic downturn that could result in increased unemployment and social unrest.

Considerable external financing has been necessary to permit the Brazilian economy to grow at its recent high rates. Brazil has turned increasingly to international private banking sources,

national export credit agencies, and to the World Bank and the Inter-American Development Bank. These have replaced U.S. bilateral assistance programs as major sources of financing for development projects. As a result of Brazil's capital growth requirements, the country's foreign debt has risen rapidly and is the largest of any developing country, reaching \$55 billion in 1980. Roughly \$16 billion of this amount is held by U.S. banks. Debt service, a major part of Brazil's balance-of-payments deficit, exceeded \$12 billion in 1980.

Trade and Investment

Exports, spurred by a record agricultural harvest, reached \$20 billion in 1980, 32% above 1979 levels. Manufactures constitute 57% of Brazil's exports, and Brazil is the second leading exporter of agricultural products after the United States. Brazil's imports have also risen rapidly due to the country's growing oil bill. Total imports for 1980

TRAVEL NOTES

Climate and clothing—In most parts of the country, days range from warm to hot, except during the rainy period from November through February. Wear spring or summer clothes.

Health—Sanitation facilities in many places are being expanded. Carefully prepared and thoroughly cooked foods are safe for consumption. Tapwater is not potable. Yellow fever, rabies, gamma globulin, typhoid, and polio shots are recommended.

Entry requirements—Visas are required of US citizens. No inoculations are required for entry.

Telecommunications—Telegraph and long-distance telephone services are good. Brasilia is two time zones ahead of Washington, DC.

Transportation—Direct air service is available. Rio is the normal point of entry, but Sao Paulo, Brasilia, and Belem are also served. Intracountry air connections are expensive; trains are limited. Intercity buses run frequently and are inexpensive but crowded. Metered taxis with red license plates have relatively low rates that are raised after 11 pm. Tipping is the same as in the US. The highway system in southeastern Brazil and as far north as Salvador is good.

were \$23 billion, leaving Brazil with a nearly \$3 billion trade deficit. The 1979 deficit was \$2.8 billion.

Under the pressure of its balance-of-payments problem, the Brazilian Government has stepped up its efforts to promote exports, particularly through financial support of export credits, trade fairs and market research abroad, and programs to encourage companies to export. In some cases, domestic price control regulations spur exports, since goods exported are not subject to price ceilings. The government is also making import controls more stringent. New regulations have required longer term foreign financing for many categories of imports in addition to previous limits on total imports. Import licenses take longer for approval and in many cases applications are rejected summarily.

Foreign investment represents a small but important part of Brazil's capital base. Of the \$16 billion in direct investment registered with the Central Bank at the end of 1979, U.S. investment totaled \$4.4 billion. The preliminary figure for 1980 is \$5 billion. Brazil has fostered a generally liberal policy toward foreign investment and has been particularly successful in attracting new investment from Western Europe and Japan. Nonetheless, the Brazilian Government has established special policies to channel investment into priority areas including petrochemicals, telecommunications, and data processing as well as the more traditional areas of minerals and capital goods.

FOREIGN RELATIONS

Traditionally, Brazil has been a leader in the inter-American community and has played an important role in collective security efforts as well as in economic cooperation in the Western Hemisphere. Brazil sided with the Allies in both World Wars and, during World War II, its expeditionary force in Italy played a key role in the Allied victory at Monte Castelo. It is a party to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty) and the Organization of American States (OAS). In recent years Brazil has given high priority to expanding relations with its South American neighbors and is a founding member of the Amazon Pact and the Latin American Integration Association (ALADI), the successor to the Latin American Free Trade Association (LAFTA).

Brazil is a charter member of the United Nations and participates in many of its specialized agencies. It has con-

tributed troops to U.N. peacekeeping efforts in the Middle East, the Belgian Congo (now Zaire), and Cyprus.

As Brazil's domestic economy has grown and diversified, the country has become increasingly involved in international politics and economics. It is a member of the General Agreement on Tariffs and Trade (GATT), the Committee of Twenty of the International Monetary Fund (IMF), the Group of 77, the World Bank, the Inter-American Development Bank (IDB), and several international commodity agreements.

The United States, Western Europe, and Japan are major markets for Brazilian exports and sources of foreign lending and investment. Brazil's dependence on imported petroleum has resulted in more intensive political and economic ties with Middle Eastern countries. Brazil is in the process of expanding its relations with black African countries, with which it shares a strong cultural affinity. As an indication of Brazil's broader international role, Brazil's trade with other developing countries has increased during the last decade from 9% to 23% of total trade.

The Brazilian Government has diplomatic relations with the U.S.S.R., China, and all of the East European Communist countries but not with Cuba, Vietnam, Kampuchea, North Korea, or Taiwan.

U.S.-BRAZILIAN RELATIONS

The United States was the first country to recognize Brazil's independence in 1822. Brazil's 19th century leader, Emperor Dom Pedro II, admired Abraham Lincoln and visited the United States during the 1876 centennial. President Eisenhower was given a hero's welcome when he visited Brazil in 1960. Presidents Roosevelt and Truman made earlier visits, and President Carter was warmly received in 1978.

In the 1950s and 1960s, Brazil received about \$2.4 billion in U.S. economic assistance—\$1.4 billion under the auspices of the U.S. Agency for International Development (USAID) and the remainder under PL 480 (Food for Peace) and Peace Corps programs. In view of Brazil's impressive economic development and its increased ability to obtain loan funds and technical assistance from private and multilateral sources, U.S. assistance programs were phased out in the 1970s. Major USAID activities in Brazil were terminated in 1979, and the Peace Corps program was ended in 1980.

The United States is Brazil's most

important commercial partner, although the U.S. share of Brazilian trade dropped from 26% to less than 20% during the 1970s as Brazil expanded its trade with Western Europe and the developing world. In 1980 this two-way trade reached \$8 billion. The growing diversification of U.S.-Brazil trade has led to trade disputes, and bilateral discussions have concerned such issues as Brazilian export subsidies and import restrictions, U.S. restrictions on certain import items, the transfer of technology, and multilateral trade and commodity questions.

The agreements between Brazil and the United States include a treaty of peace and friendship, an extradition treaty, a joint participation agreement on communication satellites, and agreement on scientific cooperation, civil aviation, and maritime agreements. Brazil and the United States exchange professors under Fulbright and other academic programs and carry out university cooperation projects.

Principal U.S. Officials

Ambassador—Langhorne A. Motley
Deputy Chief of Mission—George B. High
Economic Counselor—George R. Kenney
Political Counselor—George A. McFarland
Public Affairs Officer (USICA)—
McKinney H. Russell, Sr.
Defense Attache—Rear Adm. James E. McCardell, Jr.

The U.S. Embassy in Brazil is located at Lote No. 3, Avenida das Nacoes, Brasilia, D. F. (tel. 061-223-0120, telex 061-1091). U.S. Consulates General are found in Rio de Janeiro and Sao Paulo; consulates are at Porto Alegre, Recife, and Salvador. Consular agents are in Manaus and Belem, and a branch office of the U.S. International Communication Agency (USICA) is in Belo Horizonte. ■

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ANTONIO DELFIM NETTO	Minister of Planning
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LEITAO DE ABREU	Minister, Head of Civil Office of the Presidency
CARLOS GERALDO LANGONI	President, Central Bank

February 17, 1982

February 21, 1982

JOAO BAPTISTA OLIVEIRA FIGUEIREDO

(President of the Federative Republic of Brazil)

President Joao Baptista Figueiredo, 64, was born in Rio de Janeiro. He has made a long and distinguished career in the military, in which he began to serve as an officer in 1937. Among his commands were Commander of the First Cavalry Regiment, Chief of Staff of the Third Army, Chief Military Adviser to the President, and Minister for the National Information Service (SNI). In 1978 he was made General of the Army, and in 1980 was personally selected by then President Geisel as his successor. President Figueiredo is popularly viewed as a strong defender of the political opening now underway in Brazil, and as an effective moderator between civilian and military leaders. He is also well known for his love of horses.

February 21, 1982

ERNANE GALVEAS

(Minister of Finance)

Dr. Ernane Galveas, 59, who became Minister of Finance in the Figueiredo Government in early 1980, has degrees in economics and law, and did post-graduate work at Yale University. From 1963-65, Dr. Galveas was the Finance Director of the Merchant Marine Commission. In 1966 he became head of the Department of Foreign Trade (CACEX) of Banco do Brasil, and early in 1968 assumed the presidency of the Central Bank, a post he held for six years. In 1974, he became president of a new pulp and paper company, Aracruz Florestal, which he left to become President of the Central Bank in August 1979. Dr. Galveas was formerly Governor of the Bank. He was replaced in this position by Minister Delfim Netto.

February 21, 1982

ANTONIO DELFIM NETTO

(Minister of Planning and Governor of the Bank)

Mr. Antonio Delfim Netto, 53, who became Minister of Planning in the Figueiredo Government in August 1979, has a graduate degree in economics. Early in his career Mr. Delfim Netto was professor of Economics at the University of Sao Paulo where he established himself as one of Brazil's outstanding theoretical economists. From 1964-67 he served as Secretary of Finance for the State of Sao Paulo, and in March 1967, at the age of 39, he was appointed Minister of Finance, where he remained until 1974. During the Geisel Government he was Ambassador to France for Brazil. In March 1979 he was appointed Minister of Agriculture in the Figueiredo Government, a post he left to become Minister of Planning. Throughout his career, Mr. Delfim Netto, has been widely respected and popular, which was reflected in his being chosen "Man of the Year, 1970" by "Visao," the Brazilian equivalent of Time magazine.

February 21, 1982

CARLOS GERALDO LANGONI

(President, Central Bank of Brazil -
Alternate Governor of Bank and Fund)

Mr. Langoni, age 37, who became President of the Central Bank in early 1980, and was previously Director of the Central Bank, has a Ph. D. in Economics from Chicago University (1970). Since 1971 Mr. Langoni has been teaching at Fundacao Getulio Vargas (FGV) and at the Institute of Economic Research of the University of Sao Paulo. From 1974-79 he was Director at the post-graduate school of Economics at FGV, the position he left to assume the position of Director of the Central Bank. Since 1970, Mr. Langoni has been doing considerable research on various aspects of the Brazilian economy. His best work has been on income distribution, as a result of which, he was elected "Economist of the Year" in 1975 by the National Syndicate of Economists.

February 21, 1982

Raul Fernando Leite Ribeiro

(Special Adviser to the Minister of Planning)

Ambassador Raul Fernando Leite Ribeiro, 50, was born in Buenos Aires, and began his diplomatic career in 1955. He has served in London and Paris with the Brazilian Embassy, and was Minister-Counsellor to the Embassy in Lisbon for 1974-79. Other activities include service in numerous councils on Brazil's bilateral relations with Japan, West Germany, Spain, East Germany and Italy. Most recently he has been serving as special adviser to Minister Delfim Netto for coordination of preparation and negotiations of the POLONOROESTE program. In this capacity since 1979, he has worked closely with Bank staff in all phases of project preparation, negotiations, and implementation of the projects comprising the Program.

February 21, 1982

Elizabeth Leite Ribeiro

(Wife of Ambassador Leite Ribeiro)

Mrs. Elizabeth Leite Ribeiro has accompanied Ambassador Leite Ribeiro in his numerous posts. She is fluent in English, and has been certified as a teacher and translator by Cambridge University, England. She also has interests in adolescent psychology, which she has pursued through course work at the University of Brasilia.

D

February 22, 1982

Background Note on Political Situation

1. During the postwar up to 1964, Brazil possessed a form of government which was formally a representative democracy. It functioned haphazardly with intermittent crises and threats of military intervention. Increasing social turmoil and economic chaos, coupled with a pronounced political move to the left by the Goulart government, culminated in a military takeover in 1964. Beginning in 1964, and continuing in subsequent years, major changes in the political system were introduced, including the dismantling of the established political institutions. The effect of these changes, brought about in the late sixties, was to depoliticize the system and strengthen the military in power. Dissent and opposition were overwhelmed. The watershed event in the progression toward an authoritarian military regime was the Fifth Institutional Act in December 1968 which dissolved the Congress.

2. Beginning with the administration of President Ernesto Geisel (1974-79), there began a gradual, if halting, process of political redemocratization (abertura) and liberalization. Press censorship was relaxed; the torture of political prisoners was eliminated; increased political functions were given to the Congress; and abuses of political and civil liberties were curtailed. New life was breathed into the political system, and new political stirrings began to take place.

3. The current administration of President Joao Figueiredo has continued the process of gradual abertura. In the beginning of his administration, President Figueiredo tried to present himself as a leader of national reconciliation. Political prisoners were released from the jails, and an amnesty enabled political exiles to return from abroad. The press, although not television, is now virtually free from all forms of censorship and accordingly expresses a wide range of political views. The President has strongly committed himself personally to abertura in general and to the administration of the scheduled November 82 gubernatorial and congressional elections in particular.

4. Despite the political liberalization that has occurred, the progress has been tightly controlled by successive military governments. Whenever the opposition forces have appeared to constitute a serious political threat to the military regime under the established rules governing political behavior and governance, the government has changed those rules. When the government-sanctioned opposition party -- the MDB -- appeared to be gathering strength, the government dictated a party reform which had the intention, and effect, of dividing the political opposition into a number of splinter parties. These parties are frequently based upon personalistic leadership rather than cohesive philosophies.

5. More recently, in November 1981, the government has dictated very restrictive election rules for the up-coming November 1982 elections. These elections, providing for a direct popular vote for state governors for the first time since the mid-sixties, have widely been heralded as a test for the abertura process. The clear intention of the election rules imposed in the November "package" is to assure control of the government party, the PDS (Social Democratic Party). Without these restrictive rules it was becoming clear that the government would have suffered defeats and lost control of the Congress. It now appears that the elections will be held as scheduled but that these elections may not alter the political control of the country by the current government.

6. While regarded as a major step backwards in the abertura process by the opposition parties, the electoral "package" did have the effect of diminishing the climate of political uncertainty that has characterized Brazil for the last year. There has been much concern within the military that the abertura process had been going too rapidly, and there was an increase in right wing terrorism, generally thought to be carried out by groups within the military. Accompanying the government's steadfast public commitment to proceed with the 1982 elections and the increasing likelihood of the government's doing poorly in those elections, rumors were rife throughout 1981 of a hardening up of the military regime, most likely in the form of a coup deposing the present President. The unexpected fall from power in August 1981 of General Golbery do Couto e Silva, the Chief of the Civil Cabinet and the individual widely regarded as the most powerful man in the country, was heralded as an important victory of the hard-line elements within the military. General Golbery was the grey eminence in both the Geisel and Figueiredo administrations and has been generally regarded as the architect of the abertura. Despite the vicissitudes of the redemocratization process, as long as the military feels able to contain the pace of political change within acceptable bounds, it is not likely that any drastic interruption of abertura will occur in the near future.

7. With steps toward political redemocratization there has been an increase in the expression and manifestation of Brazilian nationalism. The latter has always constituted a strong, although frequently latent, undercurrent in the society. In the economic sphere, such nationalism presents itself in the form of pressures for the maintenance of a neo-mercantilist set of trade policies, resentment and suspicion of such international institutions as the Bank, and criticism of multinational firms. There are, for instance, various legislative proposals presently under consideration in the Congress which seek to restrict or control the activities of multinational firms in Brazil in varying degrees and manners. President Figueiredo himself has recently publicly chastized one large foreign firm (Volkswagen) for having made excessive profits in the past. In such an environment relations between the Bank and the Brazilian Government, while presently very good, may present risks for misunderstanding and difficulty.

February 19, 1982

Background Note on Brazil's Economic Situation

1. During the period 1967-73, Brazil sustained high economic growth (over 10% per year) while liberalizing trade, reducing inflation rates, building international reserves, and accumulating only modest external debt. Despite the severe impact of oil price increases (Brazil at that time imported more than 80% of its oil), growth continued to average better than 7% per year in the period 1973-80. The Government's decision to pursue a high growth strategy was encouraged by the powerful expectations awakened by the earlier growth years, the gradual political opening and the availability of external financing in large volumes and on easy terms. Growth in this latter period, however, was accompanied by accelerating inflation, a quadrupling of external debt, increasing government intervention in the economy, and declining rates of domestic saving.

2. The second oil price hikes of 1979 consequently found Brazil even more vulnerable to external shocks than in 1973. Between January 1979 and December of 1980, the oil prices paid by Brazil more than doubled, so that despite a reduction in import volume, the oil import bill took 44% of the nation's export earnings in 1980. Other factors which also contributed to the deterioration of the balance of payments were the continued strong demand for non-oil imports and a sharp rise in the LIBOR rate at the end of 1979. As a result of rising interest rates, gross interest payments abroad jumped from US\$5.3 billion in 1979 to US\$10.2 billion in 1981.

3. The latest round of oil price increases in 1979-80, the heavy financial burden imposed by its accumulated external debt, the large jump in international interest rates, and an annual inflation rate that exceeded 100% in 1980, forced a substantial belt tightening in 1981. Better control of public sector expenditure, and on the external and internal borrowing of the public enterprises, and the phasing out of tax earmarking have strengthened the authorities' ability to manage demand. In 1981 the prefixing of monetary correction was abandoned and interest rate ceilings were removed for a large number of loans. Furthermore, exchange rate adjustments followed closely the domestic rate of inflation, stopping the appreciation of the cruzeiro observed through 1980. The nominal growth of money supply declined from an annual average rate of 76% in 1980 to 63% in 1981. Consequently, the annual inflation rate went down to 95% in 1981.

4. The stabilization effort was reflected in an industrial recession. The industrial production index through October 1981 was 8.6% below the corresponding period of 1980. Preliminary estimates indicate a decline in 1981 of 8-10% in petroleum consumption in the industrial sector. The fall in industrial production of nearly 10% more than offset

the 8% annual growth of agriculture and resulted in the first decline of GDP since World War II. Preliminary estimates indicate a decline of GDP in 1981 of about 4%. Given the recession's industrial character and the regional composition of Brazil's industrial production, it can be observed that the effects of the recession have been concentrated in the Sao Paulo-Rio industrial axis. Reflecting the decline in investment activity - both public and private - the capital goods industry has been especially hard hit.

5. The balance of trade turned positive in 1981, the first time since 1977. A trade surplus of US\$1.2 billion helped to reduce the current account deficit to US\$10.6 billion, compared to US\$12.4 billion in 1980, in spite of a rise of US\$2.9 billion in interest payments. The concern of foreign bankers regarding Brazil's creditworthiness, expressed in 1980, appears to have passed, and the country was able to raise US\$16.7 billion of gross financial credits in the international markets in 1981, albeit at higher spreads. Net capital inflows of US\$11.5 billion covered the deficit of the current account and added US\$600 million to the foreign exchange reserves.

6. The growth of GDP is expected to recover to about 4% in 1982, and Brazilian authorities plan to maintain an average growth rate of around 5% for the rest of the decade. They now seem confident they can lower the expectations for high economic growth without further political consequences. This growth target is consistent with declining inflation (20% annual reduction from 1981 on) and a strong performance of the balance of payments. Exports in real terms are expected to grow at an annual rate of 10% (quite below Brazil's historical rate), while imports are projected to show a 4.9% annual increase with oil imports declining in absolute terms. Trade surpluses throughout the 80s would thus partially offset the increasing interest payments on the external debt. Thus, the current account deficit and debt service can be expected to decline as percentages of GDP and exports, respectively. This performance of the Brazilian economy is closely tied to the growth of the world economy, petroleum prices, and future LIBOR rates. However, the conditions currently prevailing in the world economy, specifically as regards oil prices, and Brazil's success in reducing oil imports, have considerably reduced the projected balance-of-payments constraint and could permit a re-acceleration of growth above the 5% level in the second half of the decade.

7. Important to the improving medium- and long-term prospects is the major effort Brazil has mounted to raise the efficiency of fuel use and to substitute domestic fuel sources for imported petroleum. Prices for liquid fuels have been sharply increased, and alcohol production is rapidly expanding in substitution for gasoline in automobiles. Domestic coal is being substituted for fuel oil in a number of industries, and the economic feasibility of coal gasification is being studied. Refinery conversion investments are making possible a higher output of diesel oil per barrel of crude, and research is advancing toward its possible eventual substitution

by selected vegetable oils and/or alcohol. Meanwhile, greatly increased expenditures on oil exploration and development have succeeded in raising domestic production, and major new natural gas discoveries have recently been announced. Major hydroelectric projects will be coming on stream in the next couple of years. As a result of these production and conservation efforts, the Government's announced goal of reducing oil imports to 500,000 b/d by 1985, as compared to one million b/d in 1979, appears attainable. Looking beyond 1985, major new hydroelectric investments will exploit Brazil's substantial potential. Also to be tapped are large shale oil deposits and uranium reserves. In short, although the oil crisis has caused Brazil to undergo a large and painful economic adjustment, its alternatives, albeit requiring large investments to develop, are many, and energy should not represent an obstacle to long-term economic growth.

8. Manufactured exports, measured in current US dollars, increased by 36% in 1980 and by 33% in 1981. Brazil has been able to sell in the past five years quite varied and technically advanced manufactured products while diversifying at the same time the market for these products. Barring a deep and worldwide recession or a significant increase in the protective practices of the USA, Japan and the European Community, it should be able to continue to expand manufactured exports at a rate considerably above the overall growth of world trade.

9. Four economic policy issues have topped the agenda of the recent dialogue between the Brazilian authorities and the Bank:

- (a) Exchange Rate - Exchange rate adjustments in 1980 lagged behind domestic inflation; consequently, the cruzeiro has appreciated in real terms more than offsetting the 30% maxi-devaluation of December, 1979. Adjustments in 1981 followed closely the trends of domestic prices, but the earlier cruzeiro appreciation affected the competitiveness of Brazilian manufactured exports and instigated the reintroduction of substantial export subsidies. The authorities have indicated their intention to adjust the cruzeiro, for the foreseeable future, to the full extent of domestic inflation, thus achieving a gradual real devaluation. We have encouraged that policy direction.
- (b) Trade Policies - Tariff and nontariff barriers to imports, along with substantial tax and credit subsidies to exports, have been substantially increased since 1973 in an effort to make continued rapid growth consistent with a manageable trade balance. Liberalizing measures introduced at the end of 1979 were eroded under the pressures of the new oil price hikes, and Brazil's trade policies have been meeting increasing resistance from its trade partners. At least some of the export subsidies are scheduled to be phased-out, according to commitments made to GATT, by mid-1983.

- (c) Interest Rate - The Brazilian financial sector is highly segmented. The bulk of credit is moved through government administered programs, and much of this credit is extended at highly subsidized interest rates. The subsidies are a major source of the consolidated public sector deficit, at the same time that the otherwise restrictive monetary policy has resulted in extremely high real interest rates in the free segment of the market. As a consequence, the trade-off between price stabilization and output and employment is made more difficult. Some positive adjustments in interest rate policies have been made since 1979, but credit subsidies remain substantial.
- (d) Public Sector Investment Program - Brazil has long lacked a comprehensive investment program and financing plan for the public sector. The Bank for several years has been urging the Brazilian authorities to formulate a multi-year public sector investment program, integrating to the monetary, fiscal, and external sector budgets. The Secretariat of Planning is now working on the elaboration of such a program, and the Bank has scheduled a mission in April 1982 to review progress already achieved, and to assist with the Government's efforts to complete the task.

February 22, 1982

Note on Bank Lending Operations in Brazil

1. Since 1949, the Bank has made 110 loans to Brazil, amounting to US\$6,292.3 million (net of cancellations), of which 58 are not yet fully disbursed. During FY70-75, disbursements averaged US\$150 million per year, reaching US\$202 million in FY76, US\$267 million in FY77, US\$252 million in FY78, US\$295 million in FY79, US\$318 million in FY80, and US\$378 million in FY81. They are expected to increase further during the next few years. The total undisbursed amount as of December 31, 1981 was US\$3,138.2 million. The Annex to this note contains a summary statement of Bank loans as of December 31, 1981 and notes on the execution of on-going projects.

2. Over the FY77-81 period, Bank lending to Brazil ranged from US\$425 million to over US\$800 million per year. In FY77, seven loans were made totaling US\$425 million; in FY78, nine loans totaling US\$705 million; in FY79, nine loans totaling US\$675 million; in FY80, seven loans totaling US\$695 million; and in FY81, eight loans totaling US\$844 million were made. So far in FY82, three loans totaling US\$320 million for the first phase of Bank participation in the POLONOROESTE program have been approved. Work is relatively advanced on an agricultural development project in the state of Amazonas, a rural development project in the state of Maranhao, a third loan for secondary and feeder roads, a power distribution project, an urban development project in the city of Recife, a large iron ore mining project in the Serra dos Carajas, and second and third phase projects under the northwest region development program.

3. Brazil's external public and private debt outstanding and disbursed at the end of 1980 amounted to US\$53.8 billion, and is estimated to have been US\$61.4 billion at the end of 1981. At the end of 1980, the Bank held 4.2% of the debt, and its share of the service on this debt in 1980 was 1.8%. In 1981, these percentages remained essentially unchanged, nor are they expected to rise significantly over the next five years.

4. As of September 30, 1981, IFC commitments to Brazil totaled US\$774.5 million, of which US\$519.6 million had been sold, repaid or cancelled. Of the balance of US\$254.9 million, US\$193.8 million represent loans and US\$61.1 million equity. A more detailed statement of IFC activities in Brazil is set out under Tab D.5.

Lending Strategy

5. In its lending to Brazil, the Bank has sought to help the Government achieve a number of important development objectives which are interdependent and complementary. One important lending objective in

Brazil is to help to intensify the efforts of the Government to identify and develop projects that will increase the productivity and incomes of the lowest income segments of the population, to broaden the economic opportunities open to those groups, and to improve their living conditions. Loans for nutrition research and development, primary education, vocational training, agricultural research, agricultural extension, polder construction in the lower Sao Francisco river basin, and integrated rural development in the northeast and the northwest and in the state of Minas Gerais, were designed to assist low-income groups in rural areas, especially those in the northeast. Further projects to assist the rural poor are in preparation, including several additional integrated rural development projects. Loans for water supply and sewerage projects in the state of Minas Gerais, in greater Sao Paulo, in the northeast and in the south, loans for urban transport in several major cities, a loan for sites and services and low-cost housing, and a loan for urban development in medium-sized cities are assisting the improvement of the living conditions of the urban population, particularly of the urban poor. Further projects to assist the urban poor are also in preparation, including an urban health project for Sao Paulo, a metropolitan region development project in Recife, and a second multi-state water supply and sewerage project.

6. Another of the Bank's lending objectives in Brazil is to support institutional development and policy reform designed to develop rational policies and procedures, establish adequate coordination and control within the public sector, and help maximize public savings and ensure that they are used economically through rational selection of investment projects. The projects in the northwest region development program recently approved, would help upgrade the Brazilian institutions charged with the protection of the region's fragile ecosystem and would help the states of Rondonia and Mato Grosso develop their capabilities for planning, implementing and coordinating rural development, health and road activities. Loans for urban development, electric power, railways, industrial finance, highways, agricultural research and extension, rural development, water supply and sewerage, and the loan for alcohol and biomass energy development also have important institution-building objectives.

7. Another lending objective is to ease the foreign exchange constraint on development, a constraint that has become more critical since the increase in petroleum prices in 1974, by supporting projects designed to increase Brazil's export capacity and, where economical, to substitute domestic production for imports. As a result of the deterioration in Brazil's terms of trade and balance of payments which took place at the time of the 1974 energy crisis, this objective was placed in the forefront of the Government's economic policy. Lending for the electric power sector supports this objective, since it is based primarily on hydroelectric energy, and its development lessens the need for petroleum imports. Bank support of fertilizer and petrochemical projects is assisting Brazil to substitute large-scale efficient domestic production for imports and thus aid its balance-of-payments position. The alcohol and biomass energy

development project directly addresses the need to restrict growth of petroleum imports. Much of the Bank-assisted investment in the transport sector -- railways, ports and highways -- is designed to facilitate the smooth and economical flow of exports. Support of the steel expansion program is helping Brazil to expand domestic output of a traditional import commodity which can be produced efficiently in Brazil due to the country's ample supply of high-grade iron ore and the scale of its internal markets. A similar objective is being achieved through the VALESUL aluminum project which will use Brazil's abundant hydroelectric resources and ample bauxite reserves.

8. A final objective which applies to all Bank lending to Brazil is to provide part of the large volume of medium- and long-term capital inflows that Brazil has needed and will continue to need for many years in order to sustain satisfactory growth and achieve its employment creation and regional development objectives. Continued active lending by the Bank in Brazil is regarded by the international financial community as an important sign of confidence in Brazil and encourages others to continue contributing to the country's development. In some sectors, especially in electric power and industry, Bank participation has helped Brazil obtain additional resources in greater amounts and on more favorable terms from bilateral credit agencies and private financial institutions than may otherwise have been provided. Twelve co-financing operations, totalling US\$465 million, have been concluded since 1976 with private financial institutions and several others are in preparation (See para. 17 below).

Graduation

9. As you know, recently there has been a strongly and frequently stated concern in Brazil about the Bank's new graduation policy. Minister Galveas raised this with you at the 1981 Annual Meetings. At that time you told him that graduation was not imminent and that while it was not likely that lending in real terms could increase, maintaining the line at the present real level (US\$800-900 million per year) was the likely option (for a summary of your meeting with Minister Galveas, see Tab. E.1).

10. In your talks with the economic ministers and President Figueiredo it is likely that you will be pressed for reassurance on this point. We suggest you give this reassurance by noting that the US\$2,650 annual income per capita is a trigger only, which would start a process of disengagement which normally would take five years, and that the Bank's policy would be applied flexibly. Our preliminary projections (on an assumption of 4.2% average GDP growth rate for the 1980's and a 2.4% population growth rate) show that Brazil would reach the trigger point only in 1990. Thus, there can be an expectation of our continued involvement in Brazil's economic development at least to 1995.

Steel Sector Problems

11. The following paragraphs describe our difficulties with our on-going loans to the steel sector. We have formally threatened suspension of these loans if a satisfactory plan of action for completing the projects and restoring the financial viability of the companies is not presented to the Bank. Mr. Stern has also indicated that we should not present any further loans for Brazil until these problems are resolved.

12. In 1975, the Bank made its second round of loans to the Brazilian steel sector to finance the Stage III expansion programs of CSN (Companhia Siderurgica Nacional) and COSIPA (Companhia Siderurgica Paulista). These projects were co-financed with syndicated loans led by Bank of America. Both CSN and COSIPA are well managed, efficient steel producers with high operating rates, but have suffered from persistent financial and project implementation problems (with COSIPA being the most severely affected). The chief cause of these problems has been insufficient price increases^{1/} which has constrained profitability, and inadequate Government local currency funding for the projects which has led to implementation delays and impaired the companies' financial solvency, as increasing levels of short term debt were assumed to support project spending levels.

13. As a result of this situation, the Bank, in May of 1981, requested the Government for a plan of action to implement the Stage III projects expeditiously, and to restore the companies' compliance with the financial covenants under the legal agreements for the projects. The situation has now become critical. Despite repeated assurances from the Government that the CSN and COSIPA projects were of the highest priority, the 1982 budgets for the companies, as recently approved by SEPLAN, indicate that the Government has still not arrived at a comprehensive plan of action to meet the Bank's requirements. Although the CSN project is expected to be completed in early 1983, about in line with the schedule as revised in 1977, a 40% cut in the authorized real level of spending on the COSIPA project in 1982 versus 1981, will mean a further delay in its completion until possibly as late as 1985. This represents about a two year slippage since the estimates prevailing as recently as a year ago. The deterioration in the COSIPA project is particularly alarming in light of a recent announcement in the press that spending levels on another, more recently started, Government steel project (ACOMINAS) are proposed to be substantially increased in order to accelerate its completion to mid-1983. (The Açominas project has the political backing of the Vice President of the Republic, Aureliano Chaves, Minister of Industry and Commerce Joao Camilo Penna, and the current Governor of Minas Gerais, Francelino Pereira).

^{1/} Price increases in 1981 have largely alleviated this problem.

14. In addition to the above problems, CSN and COSIPA are in a precarious situation, as evidenced by their low current and debt service coverage ratios (see table attached). The 1982 budgets do little to alleviate this problem and the companies' forecasts indicate they will fall far short of the requirements we have asked them to meet by years' end 1982 and 1983.

15. In order to rectify the companies' financial and project implementation problems, we have requested the Government to prepare a more ambitious plan of action for review by a mission which will visit Brazil in early March. It is clear, however, that additional long-term funds must be raised, both to restore the companies' solvency, through the repayment of short-term debt, and to increase project spending, particularly for COSIPA, so that the projects may be completed as quickly as is now feasible. We have communicated this to the Government and informed them that a decision as to whether we can continue disbursements under the Bank's loans for the projects will be made following the March mission's return.

Interest Rate Policy

16. Subsidized interest rates have in the past inhibited our ability to disburse certain loans in the agricultural and industrial sectors, and have prevented us from expanding our lending program into areas where a definite role could be played by the Bank (such as small scale industry and rural credit in the Northeast). In 1980, we were forced to cancel US\$50 million out of the US\$85 million loan made in February 1976 for the first development banking project with BNDE, as well as US\$11.7 million under the first agro-industries credit project, because of the availability of subsidized credit which competed with our loans which were required to be on-lent on a fully indexed basis. Interest rate subsidies for industrial credit have now been largely eliminated and we are likely to be able to respond with a new industrial credit operation with BNDE. However, they persist for agricultural credit.

Private Co-Financing

17. As you know, we have had a long experience in Brazil with private co-financing. Since 1976, we have concluded some 12 co-financing operations totalling US\$465 million with private financial institutions, and several others are in preparation (including a possible loan of up to US\$1.0 billion in support of Brazil's alcohol program.^{2/} Notwithstanding this experience, there has been some reluctance in some Brazilian quarters

^{2/} A Note on Brazil's alcohol program is included under Tab K.1.

to do private co-financing, apparently because of a perception that it does not bring an improvement in terms. Private co-financing is apparently also regarded as complicating the management of Brazil's external borrowing program, which is coordinated by the Central Bank. We recommend you seek out the Brazilian's views about this, and raise the issue in your meetings with the Minister of Finance and President of the Central Bank scheduled for Thursday, March 11.

February 22, 1982

BRAZIL - REVISED LENDING PROGRAM
FY82-86

<u>FY82</u>	<u>US\$ Million</u>
NW Highways	240
NW Agriculture	67
NW Health	13
NW Mato Grosso	26
Rural Development Maranhao	50
Recife Urban Development	116
ELETOBRAS - Distribution I	<u>180</u>

692 (7)

FY83S

Carajas Iron Ore	300
Amazonas Rural Development	27

FY83

Secondary and Feeder Roads III	163
Northeast Metropolitan Development Engineering	10
Bahia Rural Development II	50
Forestry	60
NW Development III - INCRA	70
Education V - Secondary Agricultural & Technical Education	50
BNDE - Development Banking II	<u>250</u>

980 (9)

TOTAL FY 82-83

1,672 (16) 1/

FY83R

Petroleum Development I	200
Agro-Industries III	200
Sao Paulo Water Supply and Sewerage	250

1/ Currently authorized FY82-83 program is US\$1,546 million.

<u>FY84S</u>	<u>US\$ Million</u>
Multi-State Water Supply and Sewerage II	200
Sao Paulo Health Service	50
 <u>FY84</u>	
Rural Development - Northeast Sector I	80
RFFSA III	200
Highways VII	150
Alcohol Development II	250
ELETRONBRAS - Distribution II	<u>150</u>
	1,080 (7)
 <u>FY84R</u>	
BNH/PROMORAR	150
Rural Development - Alagoas	60
Industry - Energy Conservation - Unidentified	100
Rural Development - Rio Grande do Norte	30
 <u>FY85S</u>	
Urban Development - Unidentified	100
Steel - Energy Saving	120
Shale Oil Development	250
 <u>FY85</u>	
DFC - Unidentified	150
Education VI	100
Urban Transport IV	200
Forestry - Sector	100
CODEVASF III	50
Gas Pipeline	<u>200</u>
	1,270 (9)

<u>FY85R</u>	<u>US\$ Million</u>
Rubber/Tree Crops	100
Rural Development - Pernambuco II	100
Soil Erosion Control - Parana	60
Coal - Unidentified	150
<u>FY86S</u>	
Urban Development - Medium Cities II	150
<u>FY86</u>	
Northeast Rural Development II	150
Power - Xingo	200
Northwest Development - Phase IV	100
Secondary and Feeder Roads IV	200
Pollution Control	100
Water and Sewerage - Sector	250
Health - Northeast Sector	100
Fertilizer - Unidentified	100
Agricultural Research III	150
Petroleum Development II	<u>150</u>
	1,650 (11)
TOTAL FY82-86	5,672 (43)

IFC in Brazil

1. IFC does not face any serious operating problems in Brazil. The contacts with the government and the private sector are very close and have resulted in a substantial increase in the number of projects and in volumes over the recent years. However, several projects have been delayed due to the present recessionary climate in the country. The recession has also hurt the sales prospects and the liquidity positions of several companies and the supervision work has been increased to monitor carefully the specific situations.
2. The sale of matured equity positions at reasonable prices has been difficult, as most of IFC's older investments are in closed companies and in addition at the present time only a few buyers are willing to accept our price ideas.
3. A substantial amount of work and time is spent on contacts with the Central Bank, which has to approve the terms and conditions of the IFC loans as it controls the overall inflow of loan and equity investments into Brazil. The Central Bank is not willing to permit higher spreads and fees for greenfield projects financed on a project financing basis (IFC's main line of business) as it permits for less risky regular corporate credits, and therefore IFC syndications for Brazilian projects have become a major challenge. So far we have successfully completed all transactions for which we assumed a mandate.
4. Following the increase of our activities in Brazil, IFC's Brazil exposure requires careful monitoring. Consequently, we have started to reduce the exposure for IFC's own account even more than before and have put additional emphasis on funds mobilization.

Annex: IFC Work Program for Brazil

February 8, 1982

IFC IN BRAZIL

For a long time Brazil has been the most important area of activity for IFC. As of January 31, 1982, 15.7% of IFC's portfolio or US\$276 million was invested in Brazil. Including participations by commercial banks in IFC loans, the figure for Brazil reached 21% or US\$602 million.

Relations between IFC and Brazil are excellent. The contacts with the government and the private sector are very close and have resulted in a substantial increase in the number of projects and in volumes over the recent years. According to the priorities of the government, IFC has intensified its efforts to identify and support projects in the sectors and regions mentioned below.

The sectoral priorities are as follows:

- Agro Industry
- Energy
- Essential Consumer Goods
- Mining
- Construction Materials
- Manufactured goods for export and other exports

Also, the reduction of regional imbalances in industrial development has been an important criteria for us. Since June 1975, only one project has been located in the Rio-Sao Paulo area. We have focused our efforts on the Northeast, the North, the Center and states such as Minas Gerais, Parana and Rio Grande do Sul.

To meet specific needs for equity, IFC is investigating in what way it can help to establish and support specialized financial institutions such as holding companies for investments in small and medium companies and other forms of special sector/special region venture capital funds (Brasilpar, Agricultural Leasing Company, Regional Equity Funds, Eurobond Issue).

In order to maximize the impact of our activities we will not only follow the sectoral and regional development priority criteria, but also look at the following additional aspects for our project selection:

- Projects to be financed by IFC should be rather complex and involve a higher than normal risk. It will not be our objective to replace commercial bank financing; but to provide new financing concepts for projects which have no easy access to regular commercial sources.

- IFC will give preference to projects which need IFC's assistance in developing and structuring the project.
- IFC will support projects which will enhance the transfer of technology to Brazil, normally in the form of local/foreign joint ventures with special attention to medium-sized companies. In this case IFC can provide balance to the joint venture.
- IFC will focus on projects which at least have a substantial Brazilian participation in the equity, preferably Brazilian voting majority. If this should not be the case and the project otherwise is of high economic priority, IFC will seek to design a mechanism whereby it can increase Brazilian ownership substantially later on.
- Mobilization of other foreign loan and equity funds along with IFC's.

Based on these priorities IFC is in the process of making six investments in Brazil this year: Cimento Caue (cement), PISA (newsprint paper), Anitapolis (phosphate rock mine), Codepa (palm oil), Atlas (slaughterhouse) and a rights issue in Volvo do Brasil. The total FY82 commitment should reach \$170 million, including \$80 million in participations. For the following FY we are working on large natural resource based projects in the North (Carajas iron ore, Trombetas bauxite, VAW aluminum smelting), all including major syndications, and several smaller largely agricultural based projects in the Northeast and North of Brazil.

Following the increase of our activities in Brazil, IFC's Brazil exposure requires careful monitoring. Consequently, we have started to reduce the exposure for IFC's own account even more than before and have put additional emphasis on funds mobilization. Additionally, the sale of our equity participations in matured investments has received high priority. IFC has the following order of preference of selling its shares: public offering to individuals and funds (with opening of companies), sale to institutional investors, buy-back by company or sale to shareholders. Always a sale to employees is a parallel option of high priority and we are working with the companies on this.

HPaul:cww
IFC-CL2D1

February 26, 1982

IFC Portfolio as of June 30, 1981

Country, Region or Other Area and Obligor		Original Commitments		Investments Held for the Corporation (including undisbursed balances)		
		Total	Total	Loans	Equity	Total Loans
		IFC	Syndications		(at cost)	and Equity
BRAZIL						
Acos Villares, S.A.	Iron & Steel	7,282	2,644	-	116	116
Brasilpar Comercio E. Participacoes S.A.	Money and Capital Market	1,500	-	-	1,500	1,500
Capuava Carbonos Industriais, Ltda.	Chemicals and Petrochemicals	3,673	3,700	1,515	841	2,356
Cimetal Siderurgia S.A.	Iron & Steel	10,000	-	6,000	3,000	9,000
Ciminas - Cimento Nacional de Minas, S.A.	Cement & Construction Material	41,084	134,756	32,000	6,700	38,700
Companhia Brasileira de Agropecuaria - COBRAPE	Food and Food Processing	8,500	-	5,500	3,000	8,500
Companhia Siderurgia da Guanabara (Cosigua)	Iron & Steel	23,227	64,968	4,141	11,164	15,305
Dende do Para S/A - Denpasa - Agricultura, Industria E Comercio de Oleaginosas	Palm Oil	4,500	-	3,500	1,000	4,500
Destilaria Cianorte S.A.	Chemicals & Petrochemicals	250	-	-	250	250
Empresa de Desenvolvimento de Recursos Minerais "Codemin" S.A.	Mining	25,740	67,600	5,000	3,940	8,940
Fabrica de Tecidos Tatuape S.A.	Textiles and Fibers	7,750	23,250	3,098	-	3,098
FMB S.A. Produtos Metalurgicos	Iron & Aluminum Castings	20,000	-	20,000	-	20,000
Industrias Villares S.A.	Machinery	3,000	3,000	1,064	-	1,064
Mineracao Rio do Norte S.A.	Mining	15,000	-	12,188	-	12,188
Oxitenor Nordeste, S.A.	Chemicals & Petrochemicals	10,000	-	5,920	-	5,920
Oxitenor, S.A. Industria e Comercio	Chemicals & Petrochemicals	6,040	-	862	1,240	2,102
Papel e Celulose Catarinense, S.A.	Pulp and Paper Products	5,591	1,601	-	3,408	3,408
Petroquimica Triunfo S.A.	Chemicals & Petrochemicals	19,000	31,000	15,000	4,000	19,000
Petroquimica Uniao S.A.	Chemicals & Petrochemicals	5,921	2,459	-	2,046	2,046
Poliolefinas, S.A. Industria e Comercio	Chemicals & Petrochemicals	7,302	1,075	-	1,856	1,856
Polisul Petroquimica S.A.	Chemicals & Petrochemicals	20,000	28,000	15,000	5,000	20,000
PPH - Companhia Industrial de Polipropileno	Chemicals & Petrochemicals	17,000	-	15,000	2,000	17,000
Rio Grande - Companhia de Celulose do Sul	Pulp and Paper Products	4,900	-	1,715	-	1,715
Santista Industria Textil do Nordeste, S.A.	Textiles and Fibers	7,450	-	1,846	1,000	2,846
Sotave Amazonia Quimica e Mineral S/A	Fertilizers	20,000	-	16,000	4,000	20,000
Tecanor S.A. Textil Catarinense do Nordeste and Hering do Nordeste S.A. - MALHAS	Textiles and Fibers	18,200	-	14,729	-	14,729
Villares Industrias de Base S.A. - VIBASA	Iron and Steel	5,000	-	5,000	-	5,000
Volvo do Brasil Motores e Veiculos S.A.	Motor Vehicles & Accessories	15,000	50,000	10,000	5,000	15,000
				195,078	61,061	256,139

Annex IIFY 1980 Projects

<u>Project</u>	<u>Activity</u>	<u>Loan</u>	<u>Equity</u>	<u>Total</u>	<u>Priority Sector</u>
Denpasa	Palm Oil	3.5	1.0	4.5	Agriculture, Amazon
Tecanor	Textiles	9.2	-	9.2	Essential consumer goods, northeast
Hering Nordeste	Textiles	2.0	-	2.0	Essential consumer goods, northeast
PPH	Polypropylene	15.0	2.0	17.0	III petrochemical pole, R.S.
Cianorte	Cassava Alcohol	-	0.3	0.3	Energy
Sotave Amazonia	Fertilizer	16.0	4.0	20.0	Agriculture, Amazon
Polisul	Polyethylene	<u>15.0</u>	<u>5.0</u>	<u>20.0</u>	III petrochemical pole, R.S.
		<u>60.7</u>	<u>12.3</u>	<u>73.0</u>	

FY 1981 Projects

<u>Project</u>	<u>Activity</u>	<u>Loan</u>	<u>Equity</u>	<u>Total</u>	<u>Priority Sector</u>
Cosigua	Steel	-	4.3	4.3	Increase of Brazilian ownership
Polisul	Chemicals	28.0	-	28.0	III. Pole in R.S.
Petroquimica Triunfo	Chemicals	46.0	4.0	50.0	III. Pole in R.S.
Cobrape	Agriculture (rice)	5.5	3.0	8.5	Food, Goias
Itaia	Agro-industry (cocoa)	9.0	1.0	10.0	Export, Bahia
PPH	Chemicals	12.0	-	12.0	III. Pole in R.S.
Ciminas	Cement	<u>140.0</u>	<u>3.5</u>	<u>143.5</u>	Cement, Minas Gerais
		<u>240.5</u>	<u>15.8</u>	<u>256.3</u>	

Annex IIIFY 1982 and Beyond

<u>Project</u>	<u>Activity</u>	<u>Loan</u>	<u>Equity</u>	<u>Total</u>	<u>Priority Sector</u>
CAUE	Cement	40.0	5.0	45.0	Cement, M.G.
Pisa	Paper	47.5	3.5	51.0	Paper, Parana
Anitapolis	Fertilizer	45.0	-	45.0	Mining/Agro S.A.
Atlas	Agro	20.0	-	20.0	Agro, Para
Antunes	Palm Oil	10.0	-	10.0	Agro, Amapa, Export
Carajas	Iron Ore	50.0 plus	-	50.0 plus	Mining, Amazon, Export
Trombetas II	Bauxite	100.0	-	100.0	Mining, Amazon, Export
Copelmi	Coal-mining	3.0	2.0	5.0	Coal, R.S.
CPS	Paper	6.0	1.0	7.0	R.S.
Unifisa	Textiles	4.0	1.0	5.0	Northeast
uma	Copper Mining	50.0	5.0	55.0	Mining, Goias
VAW	Alusmelter	150.0	5.0	155.0	Export, Northeast
MBR	Mining Iron Ore	50.0	-	50.0	Mining, Export
Albras/ Alunorte	Alusmelter	N.A.	N.A.	N.A.	Export, Amazon
Soccoco	Coconut	N.A.	N.A.	N.A.	Agro, Northeast/Amazon
Santa Rita	Cement	N.A.	N.A.	N.A.	Cement, Mato Grosso
Agroquimica	Citric Acid	N.A.	N.A.	N.A.	Export, Northeast

February 22, 1982

Note on Brazil's Energy Situation and Prospects

1. The oil shock of 1973 and the subsequent shocks of 1979-80 have forced Brazil to modify drastically its sources and uses of energy. The magnitude of the shift involved is suggested by the following table, which presents the energy balance of Brazil in 1973 and the 1985 target. Over this 12-year period, the share of petroleum in total energy consumption will have been cut in half, and foreign petroleum in particular by two-thirds. The share of hydro-power would almost double to become the largest single energy source. Also called for is a dramatic expansion of coal use and the introduction of alcohol, nuclear, and other non-conventional energy sources.

Brazil - Energy Demand Mix
Equivalent 1,000 Barrels of Crude Oil a Day

	<u>1973</u> <u>Actual</u>	<u>%</u>	<u>1985</u> <u>Target</u>	<u>%</u>
Petroleum	690	44	840	24
a) Domestic	140	9	420	12
b) Foreign	550	35	420	12
Hydro	340	22	1,355	39
Firewood	355	23	395	11
Alcohol	5		145	4
Other Biomass	120	8	385	11
Coal	50	3	305	9
Nuclear	-	-	25	1
Other	15	-	60	2
TOTAL	1,575	100	3,510	100
Energy Conservation	-		200	-
TOTAL	1,575		3,710	

2. To achieve the targets set by the energy program, Brazil embarked on (a) a program to substitute alcohol for 45% of projected gasoline consumption by 1985; (b) energy conservation measures, especially of fuel oil demanded by industrial users such as steel, cement, ceramics, petrochemicals, paper and non-ferrous metals; (c) an increase in domestic oil production to 500,000 barrels a day by 1985 compared to 140,000 b/d in 1973, allowing a reduction of imports to 500,000 b/d; (d) the substitution of coal for fuel oil by most industrial users of fuel oil; (e) the expansion of electricity capacity, mainly hydro, to 47,000 MW by 1985 compared to 18,000 MW in 1975; and (f) the development of nuclear energy integrating the process of mining and enrichment of uranium with the domestic production of nuclear reactors and engines.

3. The targets for energy conservation, especially in the demand for imported oil, originally considered highly optimistic, now seem achievable, as realistic pricing policies coupled with the economic recession have reduced real oil imports by 7% in two consecutive years. Domestic production of oil has reached 250,000 barrels a day, bringing down oil imports to 830,000 barrels a day in 1981 against 1,020,000 in 1979.

4. Alcohol production is on target, but the recessionary conditions prevailing in the automotive industry have reduced the demand for alcohol below projections. Consequently, Brazil exported both alcohol and gasoline in 1981. Most freight in Brazil moves by truck, and most of these are diesel powered. Also while considerable price adjustments have been introduced in the past two years, diesel use is still subsidized. A substantial research effort is being undertaken to adapt diesel engines to alcohol use or to substitution by various vegetable oils.

5. Coal production is below target, but changes have taken place to shift from fuel oil to coal in several important industrial sectors, and coal production and consumption are heavily subsidized and require rationing among the users. Brazil's coal is generally of low quality and is located in the south, far from major user markets. Large investments in both processing (possibly including gasification) and transport infrastructure will be required if the targets are to be met.

6. Investment programs in progress will expand hydroelectric capacity generation to 32,000 MW. Low electricity tariffs that prevailed in the past, together with a decline in the growth of demand for electricity, have limited the capacity of internal cash generation of the Government power companies. However, the Brazilian authorities have agreed to raise electricity tariffs by 3% in real terms in 1982 and 5% thereafter until the power companies reach the 10% rate of return specified in our loan agreements and recover the shortfalls in remuneration that occurred since 1978.

7. The nuclear program is behind schedule, and there are doubts regarding the Government's present intentions to complete it. The electricity sector is being charged the cost of the nuclear program only to the extent of the cost of equivalent hydro capacity, with the difference covered out of the Government budget.

8. Brazil has the world's second largest reserves of shale oil. Recently, substantial gas reserves have also been discovered. Efforts to exploit these energy sources are being stepped up by PETROBRAS. Plans are also under consideration to import gas from Argentina and Bolivia.

February 22, 1982

Note on Brazil's Agriculture Sector ^{1/}

Sector Performance

1. Brazil's agriculture sector is one of the largest and most dynamic in the world, generating an average annual growth of value added of about 4.5% since the end of World War II. Output gains for most products have derived largely from expansion of land area, rather than improved yields, reflecting the nation's vast land resources, but research and extension work have been greatly intensified over the past decade. Agricultural exports, including processed farm products, have grown 17% per year, in nominal terms, since 1965 and currently account for some 60% of total exports. Agriculture employs about 30% of the Brazilian labor force and supports directly about 38% of the population.

2. Despite policies, through much of this period, which favored import-substitution industrialization and discriminated against agriculture, the sector has performed remarkably well and has played a major role in Brazil's overall development. There have been large variations through time, however, in the relative performances of the major agricultural product groups and among the several regions of the country. Under the present Government, agriculture has been given increased priority, ascribing to it a major responsibility for easing inflationary pressures; alleviating the balance-of-payments constraint, through both exports and the substitution of alcohol for imported petroleum; and providing employment opportunities to the rural poor, thereby slowing the heavy urban migration.

3. Considerable attention has been focussed in Brazil in recent years on the performances of domestic food crops vs. industrial and export crops. Since 1965, the output growth of crops commonly included in the latter category has averaged 19% per year as compared to just over 3% per year for food crops. The argument is to some extent specious, however. In the first place, all of the crops commonly assigned to the export category -- e.g. coffee, soybeans, cocoa, cotton, sugarcane -- are also consumed in large quantities in the domestic market. Moreover, the aggregate performance indicators are heavily dominated by the phenomenal growth of soybeans (30% per year); with soybeans excluded, the remaining industrial and export crops have shown virtually zero growth, in the aggregate of both output and area since 1965. Grains, fruits and vegetables have grown faster, in general, than the export crops (ex. soybeans), with the grains, particularly wheat, benefitting from a substantial development effort, via

^{1/} Report No. 3305-BR, "A Review of Agricultural Policies in Brazil", was distributed to the Board on September 11, 1981.

research and credit subsidies. On the other hand, certain food staples of particular importance to the low-income groups, especially black beans and manioc (cassava), have performed very poorly with negative growth rates and falling yields. These are typically small-farmer crops, and only recently has an intensified effort been devoted to yield increases through plant research, extension, and improved access to credit.

4. A similar debate on the competition for land concerns the danger that the spreading planting of sugarcane for alcohol will displace food crops. Analysis done by the Bank, however, in appraisal of its participation in the alcohol program, concluded that the likely impact of the first phase of the program (through 1985) would be to bring pasture lands, primarily in western Sao Paulo, under more intensive cultivation with only a slight impact on food crops or food costs generally. The trade-offs are likely to become more difficult after 1985, however, and relevant research and monitoring was built into the Bank's loan. Some concern also exists for the social impact of alcohol expansion in the Northeast.

5. As is industrial output, agricultural production is also concentrated, although to a lesser extent, in the coastal states from Minas Gerais south, comprising the Southeast and Southern regions of Brazil. Together these seven states account for some 70% of the value of crop output as compared to 22% in the Northeast. Better soils and climate, superior infrastructure, nearness to major consuming markets, and better access to government -- programs credit, minimum prices, education, etc. -- have all contributed to higher yields and labor productivity in the South-Southeast. The agricultural frontier is now spreading rapidly into the North and Center-West regions, including the savannah lands (cerrados) of Goiás, Mato Grosso and western Minas Gerais, and the newly proclaimed northwestern State of Rondônia.

Sector Policies

6. The principal vehicle by which recent governments have sought to offset the disincentives to agriculture caused by their industrialization policies has been subsidized credit. Credit to agriculture expanded five-fold in real terms through the 1970s, and, as inflation accelerated far ahead of administered interest rate adjustments, the subsidy element grew even more rapidly. Little precise is known of the impact of these subsidies on investment, production and incomes, but the distortions and inequities are believed to be substantial. Moreover, by the late 1970s, the sheer volume of the subsidies involved had come to constitute an important element of macroeconomic destabilization. 2/

2/ This phenomenon is analyzed in Report No. 2790a, "Brazil: Financial Systems Review", distributed to the Board on November 18, 1980.

7. Although agricultural credit, particularly short-term production credit, has continued to be given preferential treatment under the generally tight credit policies imposed since 1979, it, too, has come under increasing constraint with respect to both volume and lending terms. Nevertheless, the subsidy element remains very large. The authorities have indicated their intention to reduce credit subsidies over time but believe that any abrupt hardening of present policies might cause serious disruption of production incentives. In the meantime, a significant effort has been made since 1979 to improve the access to official credit of small farmers, particularly in the Northeast, who have long been outside the formal credit system.

8. More than 40 commodities are currently included in Brazil's minimum price guaranty program, but 90% of the subsidized storage credits under the program in recent years have gone to producers of soybeans, cotton, rice and corn. Only 10% of these credits went to farmers in the Northeast. Similar to credit generally, an intensified effort has been made since 1979 to extend access to the program and to make it more effective for small farmer crops, such as beans and manioc.

9. Since the early 1960s, the Government has used its position as sole importer of wheat and sole purchaser from the farmer to subsidize both its production and consumption. Once an important source of monetary expansion and a serious price distortion, the wheat subsidy was significantly reduced in 1981.

10. Export crops have been affected through time by an ever-changing mix of export taxes, quotas, quality controls and supply guarantees for local processors aimed variously at assuring adequate supplies to the domestic market and increasing the value added of exports. Local processors also benefitted by tax exemptions and export subsidies not until very recently available to exporters of the unprocessed agricultural commodity. The results of the effort to promote greater industrialization of agricultural products have been spectacular. In the late 1960s, some 45% of soy exports were in the processed forms of cake and oil; a decade later, this ratio had risen to 85%. Similarly, the processed shares of coffee, cocoa, sugar and cotton rose from 2% to 18%, 23% to 49%, 1% to 40%, and 7% to 88%, respectively. Nevertheless, some important inefficiencies in resource allocation were created in this process. In the specific cases of soybeans and cocoa, the net foreign exchange earnings from the processed exports have in some years been less than that which would have been earned by exports in natura. In the case of other crops, such as corn and rice, in both of which Brazil appears to enjoy a comparative advantage, frequent changes in export regulations in response to domestic inflation and balance-of-payments concerns has had a destabilizing impact on prices and production. A more open integration of these crops to international trade could serve to give greater stability to domestic supply, reduce price fluctuations, and improve production incentives.

11. The concentrated structure of land ownership and insecurity of land tenure prevailing in Brazil has long been identified as an important constraint to expanded agricultural output and employment, as well as a source of social tension in the countryside. In 1975, for example, farms of under 10 hectares accounted for 52% of total farms by number, although they controlled less than 3% of the total land area under farms. In contrast, farms larger than 100 hectares accounted for only 1% of the establishments, but 79% of the total farm area. The degree of concentration is even greater in the Northeast. Few reliable data exist on the extent of land ownership among farm workers, but estimates for the Northeast suggest that less than 15% of the agricultural labor force owns the land it cultivates.

12. Studies conducted by the Bank and others show that larger farms tend to be less productive and absorb less labor per hectare than larger farms. These studies also show that land ownership has tended to become more concentrated over the past two decades, and that this has contributed to an acceleration of rural-to-urban migration. Although more research is needed, it would appear that the availability of subsidized rural credit and the expansion of mechanized agriculture and extensive cattle-raising have all contributed to the increasing concentration of land ownership. The Government is aware of the problems created by the current land tenure situation and has taken some recent measures to help alleviate them. Included among these measures are: the establishment of a progressive rural land tax that would penalize owners of large, unproductive farms; a law to reduce from 10 to five years the waiting period for small squatters (up to 20 hectares) to obtain legal title to their land; and, in frontier areas such as the Northwest, the streamlining and acceleration of the land titling process.

Summary

13. The considerable progress achieved by Brazilian agriculture over the past several decades is a clear demonstration of its enormous productive potential, and the sector's importance to Brazil's long-term development has been highlighted by the world energy crisis and the nation's current macroeconomic difficulties. After many decades in a support role, agriculture is now being accorded a major policy priority. Very substantial resources are being provided to the sector in the forms of credit subsidies, tax incentives, research expenditures and other support services. The benefits of these programs, however, have been highly concentrated among producers of a few crops - principally the major grains and export crops - with some probably consequent distortion of resource allocation and important negative implications for the distribution of income and agricultural wealth among households and regions. The Government has taken important steps in the past two years to reduce price distortions in the sector and to improve the access of small farmers generally, and farmers in the Northeast in particular, to public support programs, but on both counts much is still to be done.

February 17, 1982

Note on Brazil's Industrial Policies

1. Industry has been the Brazilian economy's leading sector for the last 50 years growing at an average 9 percent annually since 1932. By 1979 industry had grown to account for 38 percent of the country's GDP (as compared to 34 percent for the United States). By most measures, Brazil has become an industrialized, yet still poor, country. Consequently, what happens in the industrial sector has widespread repercussions for the rest of the economy. For example, the recession of 1981, reflected in the estimated GDP decline of about 4%, was largely a measure of industrial sector conditions, where output declined by nearly 10%.

2. The rapid industrial growth of the 1950-80 period was accompanied and fostered by mostly inward looking economic policies, stressing import substitution and production for the domestic market. Protection, provided through a myriad of exchange controls, import restrictions, fiscal incentives, and credit subsidies, was liberally provided for many manufacturing sectors. At the same time, except for certain key, national security related, industries, foreign firm participation was welcomed on a nondiscriminatory basis. While the industrial sector grew rapidly as a result of these, and other, measures, such growth was accompanied by relatively slow labor absorption, high levels of capital intensity, increasing inequality in relative income shares, and, until the mid-1960's, export stagnation.

3. The mid-1960's witnessed many important economic policy reforms, including changes in fiscal policies, monetary management, and exchange rate policies. These policy changes, along with favorable world economic conditions, set the stage for the very rapid economic expansion during the 1968-73 period. There was a partial, if very cautious, liberalization in trade policies, resulting in rapid export growth. For the first time export expansion replaced import substitution as a source of demand growth for industrial sector expansion.

4. With the 1973-74 petroleum price shocks, the observed halting movement towards trade liberalization proved short-lived. Pressed by an inward looking perception of Brazilian balance of payments pressures, policy-makers once again emphasized import substitution as a primary explicit objective of economic policies. By 1974, however, in contrast to earlier periods, the remaining latitude for industrial import substitution was quite limited. In only a few industries did imports represent more than 10 percent of total available domestic supply.

5. Brazilian industrial policies are beset by great complexity and involve numerous policy instruments administered, frequently in a discretionary way, by various government agencies. Exchange rate policy, import restrictions, fiscal incentives, credit subsidies, export incentives and controls, and domestic price controls all affect the competitiveness and performance of industry. Moreover, with the current exception of exchange rate policy, all have differentiated effects across individual subsectors. In the design of economic policies, it is essential for policy-makers to have an accurate idea of the net effect of the various incentive (disincentive) policy instruments as they pertain to different sectors. A Bank report, currently in yellow cover, has attempted to measure and analyze the different impact of industrial and trade policies across sectors. ^{1/}

6. Nominally, trade policies in Brazil are presently extremely restrictive. As measured by the ratio of exports to GDP, only a handful of countries (i.e., China, Turkey, and Uganda) possess more closed economies than Brazil. Brazilian incentive and trade policies imply that many international trading opportunities for Brazil are foregone. There are some de facto export taxes, and periodic quantitative export controls are exercised. In addition, tariffs for industrial products average 99 percent, and there exists an involved and very restrictive system of non-tariff barriers. The imports of many products are, in effect simply prohibited. While such restrictions as these have been increased substantially since 1974, Brazilian industry in general has grown up in an environment of heavy protection. Despite such protection, however, many industries have emerged as internationally competitive. Substantial tariff redundancy has developed in practically all lines of industry, signifying at least a partial maturing of many former "infant" industries.

7. Bank analysis of effective rates of domestic market protection, based upon direct price comparisons, has generated an average estimate for manufacturing of 44 percent. When exchange rate overvaluation, reflecting trade policy distortions, is taken into account, the comparable average of the net effective protection rate drops to 18 percent. Despite these rather modest averages, the means disguise substantial intersectoral variations in protection rates, implying considerable resource misallocation and concomitant economic welfare costs in the administration of current industrial policies. Moreover, since the domestic market incentives appear to be positively correlated with capital and skill intensity across sectors, the intersectoral impact of industrial policies constitutes a partial explanation for the observed low unskilled labor absorption and the high income inequality in Brazil.

^{1/} Brazil - Industrial Policy and Manufactured Exports, Latin American and the Caribbean Regional Office, January 7, 1982.

8. Changes in the incentive system, if they could be effected, would go far in fostering higher rates of economic growth, greater labor absorption into production activities, and a concomitant reduction in poverty. It would be desirable for the Bank to encourage such changes in incentive policies. At the same time there seems to be growing awareness in Brazil that the current incentive policies are outmoded, counterproductive and inconsistent with Brazil's emergence as a major participant in the international economic order.

9. Some recent changes in Brazilian economic policies have been propitious and salutary. Since late 1980, financial policy change have resulted in the reestablishment of real positive interest rates for industrial, and much other, borrowing. Simultaneously, exchange rate policy has been managed via a crawling peg so as to effect a real depreciation, thus recouping some of the losses in Brazilian competitiveness associated with exchange rate management in 1980. Maintaining this policy of accelerated nominal depreciation is intended to accompany the scheduled phase-out of the fiscal export subsidy, currently set at 15% of export value for most manufactured products. In addition, the removal of domestic price controls from many products was a further step towards a more liberalized set of economic policies affecting industry.

10. Despite these, and other, favorable policy changes, the intricate and comprehensive incentive system in Brazil is badly in need of further measures to rationalize and liberalize its structure. Desirable policy measures would include steps: (1) to reduce the dispersion in domestic market protection across subsectors, (2) to initiate a liberalizing reform in the system of import restrictions, (3) to reduce the discretionary basis for providing incentives, (4) to encourage competition and promote technological progress and (5) to institute a free trade regime for export production.

BRAZIL -- Information Media

Brazil's media network, which is one of the largest in the world, has experienced important changes in recent years in response to the country's more liberal political climate. During a 10-year period of severe censorship, the quality and independence of most of the media declined. At the same time, there were major technical advances, especially in the television and graphics industry. To compensate for the reduced political coverage, the press devoted more attention to specialized economic and financial reporting.

With the democratic initiatives of the government, there has been a resurgence of political journalism and the newspapers are returning to their traditional political positions. The large-circulation press is again conservative, while the radicalism of the smaller opposition newspapers has re-emerged. The period of press control coincided with official encouragement of private investment and greater diversity in the media industries. As a consequence, the Brazilian media can be compared now technically with any country in the developed world, although the circulation of the most important periodicals might seem low by Western standards. Brazil's very large and complex media system is, on the other hand, still mainly concentrated in the urban centers of the South and Southeast.

According to most recent estimates, Brazil has about 18 million television sets with a potential audience of about 60 million (about half the population). Its 40 million radio receivers cover about 80% of the population. The Brazilian printed media include 304 daily newspapers with a total circulation of 3.7 million, and also comprises 841 periodicals and about 600 magazines. The printed media are estimated to reach some 22 million people, or about 20% of the population. While they have smaller circulations than the press in similar-sized countries, there is a high level of readership per copy.

The main news organizations, particularly in the printed media, are very sophisticated in their international coverage, and constantly report about financial and development issues related to the World Bank. They regularly cover the Bank's Annual Meetings with their own journalists, and they are, in general, sympathetic to the Bank. Recently the question of the graduation process within the Bank was followed very closely, mainly through their correspondents based in Washington.

Radio and Television

The Brazilian broadcasting system, now in the process of expansion, comprises about 1,000 radio stations and some 100 television stations across the country. A large majority of them belong to commercial private enterprises;

only a few are operated by government agencies, universities or other public institutions.

An audience of 60 million potential viewers makes Brazil the largest television market in the Western Hemisphere with the exception of the United States. Brazil is exceeded only by the United States, major European countries, the Soviet Union, and Japan in number of television sets. The electronic media has notably expanded its influence in Brazilian life. This is evident in the advertisement investment that is increasingly concentrated in television. The most important television networks are Rede Globo, with 42 stations; Rede Santos; and Rede Bandeirantes, with 17 stations. With a very few exceptions, the vast majority of these stations are privately owned and licensed by the government.

Rede Globo is by far the most prominent of the television networks and forms part of the powerful media conglomerate O Globo, with headquarters in Rio de Janeiro. Privately owned, this group includes the newspaper O Globo (one of the four most important); the Globo Radio Network with five stations in Rio and two in Sao Paulo, plus others in the interior; and a publishing company in Rio, besides several other telecommunications and media companies. The TV Globo network advertises itself as "the largest communications industry in Brazil" and with the ninth largest audience in the world. It has five generating stations around the country, plus 26 affiliated stations and dozens of repeaters throughout Brazil. It reaches an average of 65 to 70% of Brazil's potential viewers. TV Globo's most important news program, Jornal Nacional, reaches practically all corners of the country. Of good quality, it is the only truly national daily news program.

Rede Santos has become the second network in terms of audience size after TV Globo. Based in Rio, TV Santos is oriented to a broad public without much concern for quality. Rede Bandeirantes, based in Sao Paulo, is oriented to a smaller, more intellectual audience.

These three networks produced over 85% of Brazilian television programs, which supports the criticism that the TV industry basically emanates from Rio and Sao Paulo. Aside from the country's 94 commercial stations, there are nine educational stations. The better known are TV Educativa in Rio and TV Cultura in Sao Paulo.

The private commercial radio network includes 909 AM stations and 77 FM stations, along with several other educational and cultural radio stations. As in the case of television, radio stations are also concentrated in the South (313) and Southeast (338). In 1974, it was estimated that radio broadcasting covered 90% of the urban population and 50% of the rural population. There are about 50 government-owned stations, including Radio Nacional, the official radio station. The Roman Catholic Church also owns several stations.

Newspapers

Since the first Brazilian newspapers appeared in the early 1800s, the press has been considered an important channel for influencing public opinion and for expressing political views. Although in several instances the Brazilian press has been considered independent, the traditional newspapers have generally had political or economic links.

There are no national newspapers as such, and only the four most important can be considered close to that category. O Estado and Folha de Sao Paulo, both published in Sao Paulo, and Jornal do Brasil and O Globo, from Rio de Janeiro, can be found in most capitals of the interior.

The conservative O Estado was established in 1875 and is considered the most influential paper in Brazil, though its quality has declined somewhat. With a large circulation and a solid economic position, it is by far the country's leading newspaper enterprise. However, its traditional editorial independence from the financial community seems to have been affected recently by the sizeable debt it contracted to build a new plant outside Sao Paulo.

O Estado was the only large newspaper that refused self-censorship and led resistance to government controls to the press. In the last 12 months, and due to the government loosening its controls, it has resumed its conservative position. Also because of internal personnel problems, the newspaper has lost some of its best journalists and is currently rearranging its cadres. O Estado's afternoon edition, Jornal da Tarde, is one of the country's best evening papers, though circulation is confined to Sao Paulo.

Another major conservative newspaper is Folha de Sao Paulo, with a substantial weekday circulation of 237,100 and 283,100 on Sundays. It also publishes A Gazeta Esportiva, Folha da Manha, Folha da Tarde, and Noticias Populares, all of them with circulation of over 100,000. Folha de Sao Paulo has recently achieved a very good reputation among the Brazilian media. Though at first it did not strongly resist government pressure -- Folha opened its pages in 1975 to different political views, including those of the opposition, and soon gained a reputation for independence. Under a new editor, Boris Casoy, it maintains a high quality of journalism, taking up some of the ground vacated by O Estado.

The most important daily in Rio de Janeiro is Jornal do Brasil. Once considered the best newspaper in Brazil and probably in Latin America, its quality too has declined recently. It is independent, conservative, and increasingly critical of government policies. Jornal do Brasil is influential with top policymakers, politicians, businessmen, and the military. It maintains large offices in Brasilia, Sao Paulo, and other cities, and also has an extensive network of foreign correspondents, including one recently assigned to Moscow. It has substantial weekly (248,233) and Sunday (143,421) circulations, the latter reaching one million people.

The fourth largest newspaper in Brazil is O Globo. Conservative, but with more popular appeal, the paper has consistently supported the military regime. Its circulation is 173,573 from Tuesday to Saturday, and 260,857 on Sundays.

Other newspapers published in Rio de Janeiro are O Dia, Ultima Hora, Tribuna de Imprensa and Jornal dos Sports. O Dia, a newspaper of popular appeal, has the largest circulation in Brazil (252,812 on weekdays and 305,786 on Sundays).

The 159-year-old daily, Jornal do Commercio, has only about 30,000 readers, but subsists on the advertising revenue from business corporations, which traditionally publish their annual balance sheets.

Among other important newspapers is Sao Paulo's Gazeta Mercantil, the best financial paper in Brazil. Recently Fortune placed Gazeta Mercantil among the top ten in its field in the world. It is owned by Herbert Victor Levy, a Sao Paulo politician.

The newspaper maintains an independent position regarding the government and is very well regarded in business circles, although its circulation is comparatively small (about 45,000 copies a day). Gazeta Mercantil is now being printed simultaneously in Sao Paulo and Rio de Janeiro. Facsimile printings are planned for Brasilia and other cities, aimed at converting it into the first truly Brazilian national paper.

The Latin America Daily Post, from Sao Paulo, is the only dailypaper in English published in Brazil. It has incorporated the old Brazil Herald published in Rio and aims to be the Latin American version of the International Herald Tribune. Its circulation of 20,000 is still very small.

In the interior of the country, the most important newspapers are: O Estado do Parana, A Tribuna do Parana, Gazeta do Povo, and Diario do Parana (Curitiba); Estado de Minas, Diario do Commercio, and Diario de Minas (Belo Horizonte); and Correio do Povo, Zero Hora, and Jornal do Commercio (Porto Alegre).

In Salvador, the leading and traditional paper is A Tarde (circulation about 48,000). Also Tribuna da Bahia, Jornal da Bahia (opposition paper), and Correio da Bahia, recently established by Governor Antonio Carlos Magalhaes. In Recife, the 154-year-old Diario de Pernambuco, with a circulation of 28,000 on weekdays and 58,000 on Sundays, covers about 85% of the city's readership. Other daily publications are Jornal do Commercio and Diario da Manha.

The readers of Manaus are served by A Critica with 32,000 copies, A Noticia (12,000), and Jornal do Commercio (8,000). In Brasilia, Correio Braziliense is the most important paper with a circulation of 30,000 to 50,000. The most recent addition to Brasilia's young newspaper industry is Jornal do Brasilia, an independent daily with about 26,000 copies.

The Alternative Press

Censored and persecuted for many years, the opposition press, called "nanica" (small) in Brazil, is emerging vigorously, benefitting mainly from the end of censorship. Among them, Pasquim, an irreverent, satirical weekly, is still the leading publication with an average circulation of 50,000.

Another interesting publication is Coojornal, a monthly printed in Porto Alegre by a journalist cooperative that has proved very successful. Other publications are Movimento, Versus, Brasil Mulher, and En Tempo, all

of them left-leaning and anti-establishment. In all, the "nanica" publications account for about 200,000 copies.

News Magazines

The leading news magazines are Veja and Isto E. The former is a general news weekly, with an emphasis on political and international events. It can be compared very favorably with Time or Newsweek. Its over 300,000 copies reach a readership of more than 1.2 million people, and it has the largest circulation in this field. Veja's parent company, Editora Abril, also publishes a number of magazines for male and female readers. The company claims a circulation of 3.5 million a month for its publications.

Although Isto E is still far from reaching the circulation of Veja, it has become an important competitor in only five years. After initial financial problems the magazine has finally reached a solid position, both in terms of circulation (over 100,000) and advertising revenues. It is now owned by Fernando Moreira Salles, whose father Walter owns Unibanco, the fifth largest bank in Brazil.

Manchete, an illustrated weekly styled after Paris Match and Life, is also a popular publication with over 200,000 copies a week and a readership of 1.4 million. Its publisher also produces Desfile, a women's magazine (207,140 copies monthly), Amiga, Pais and Filhos, Ele, Fatos e Fotos, and Tendencia, a financial monthly with about 26,000 copies.

Exame, of Editora Abril, is the largest publication for the business and financial market. It publishes every two weeks about 60,000 copies. Visao is also an important fortnightly of a more general type, although it also focusses on the country's economy (estimated circulation 130,000).

Altogether some 618 magazines are published in Brazil, including consumer, sports, business, and technical magazines. As in the other media, the majority of them are printed in the South and Southeast.

Books

The book publishing industry is suffering the chronic constraints of a small market, caused by low literacy and the lack of economic means of most Brazilians. However, in recent years there has been a boom in non-fiction publications, especially political, historical, and sociological, as a consequence of the loosening of censorship. In 1978, about 713 fiction and 2,132 non-fiction books were published, although the average printing is only 3,000 copies.

One of the elements that hampers the distribution of books in Brazil is the small number of bookstores. Most recent estimates show that there are only about 500 in the entire country (Buenos Aires alone had that number of bookstores in 1977). Including the newstands, drugstores, and supermarkets, there are less than 1,700 outlets for books in Brazil.

This is the situation in a country in which a publicist recently expressed his concern about "the dark side of the information media in Brazil, where 20% of the population doesn't listen to the radio, 50% doesn't watch television, and more than 80% doesn't read any type of newspaper, magazine, or periodical publication."