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27 FEB 1980

21 January 1980

BRITISH EMBASSY
BRASILIA

BRAZIL: ANNUAL REVIEW FOR 1979
SUMMARY

1. 1979 was a year of major political change. There was anxiety over oil supplies. Most of the exceptional legislation introduced by military governments since 1964 was abolished by President Geisel at the beginning of the year and the process of "political opening" laid down by Geisel was continued by his successor, President Figueiredo, from March onwards. Figueiredo's amnesty and party reform law should, for the near future, ensure government superiority in Congress by dividing the opposition. But there may be risks for the Government in the elections in 1982. Some of the ruling group remain doubtful about the political opening. Strikes were a new feature. Urban violence increased.

(Paragraphs 1 - 3)

2. The Government's concern about the effect of recession on employment has led it to continue growth policies despite the inflationary consequences. This, allied to the impact of increased oil prices, resulted in 77% inflation and a foreign debt of US\$ 50 billion. At year-end the Government introduced remedial measures, including a 30% devaluation. The economic situation for 1980, although still difficult, now looks viable.

(Paragraphs 4 - 6)

3. In foreign affairs the policy of private pragmatism and public principle was maintained. Relations with the US and Argentina improved and remained good with the EEC and the UK. The oil question dominated relations with the Middle East.

(Paragraph 7)

4. UK interests remain mostly commercial with emphasis on UK exports of high technology. UK invisible receipts grew fast. Joint venture opportunities remain attractive particularly in coal. Politically the system should remain much the same. Economically it should improve. We should identify Brazil's view of its interests and co-operate accordingly.

(Paragraph 8)

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BRITISH EMBASSY
BRASILIA

21 January 1980

014/1

The Rt. Hon. The Lord Carrington, KCMG, MC
Secretary of State for Foreign & Commonwealth Affairs,
LONDON S W 1

My Lord

BRAZIL: ANNUAL REVIEW FOR 1979

1. 1979 was a year of major political movement in Brazil. Externally the policy of "oecumenical pragmatism" was continued, but reflected internal change and increased preoccupation with securing oil supplies. The worsening of Brazil's external balances and the rapid increase in the rate of inflation led at the end of the year to a package of economic measures, including a 30% devaluation and cuts in Government expenditure.

2. In January President Geisel abrogated all of the principal exceptional measures taken by the military Governments since 1964, whilst incorporating within the Constitution additional emergency powers for the Executive. In March therefore President Figueiredo took over a régime in which the rule of law is, in normal times, fully operative. Geisel carried out most of the political programme he had set himself when he became President. But he did not reform the parties as he had intended. The two parties set up by the military régime were broadly enough based to secure the support of 75% of the electorate, but the elections of 1974 and 1978 showed that this involved the risk that the opposition party could secure enough votes to dominate some of the most important State Legislatures and,

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perhaps, in time the Congress itself. Geisel's intention, now carried out by his successor, was to prevent this from happening by dissolving the two parties and allowing the creation of at least four new ones, thus splitting the opposition. An amnesty was granted which enabled the return to political life of those previously excluded. This has ensured that the opposition is divided by providing leadership for a party of the socialist left. A liberal party is being formed which includes moderates from both of the former parties. The bulk of the former government party with some former opposition members will make up a new government party, which may retain an absolute majority in the Congress. The remainder of the former opposition party, with its radical and conservative wings clipped, will form the moderate left opposition. If the strategy of Presidents Geisel and Figueiredo (of which General Golbery is perhaps the real author) works out, then after the 1982 elections it would be likely that the government party would be the largest group in the Congress. The liberals would be the third largest party in Congress and would give the Government, if it needed it, an overall majority if the remaining opposition parties looked like threatening the basic political ideas of the 1964 revolution. The moderate left would be likely to be the second largest party in Congress. They would present real opposition to Government measures, but would oppose any move to genuine socialism. The socialist left would be the smallest

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group in the Congress. The new party law ensures that splinter groups will not be represented.

3. This strategy has risks. The manifesto of the liberals is more combative and that of the socialists more stridently socialist than expected. In addition it seems possible that a fifth party may be formed which will have direct support from some large Trade Unions. Then whilst the existing members of Congress are joining the new parties in the proportions the government expected, the 1982 elections could always turn out very differently. There could be a major swing of voters which would give a majority for an anti-régime coalition. This sort of fear is very present in the minds of those members of the revolutionary establishment, both military and civil, who remain doubtful about the political opening. Their fears were heightened when the students, newly permitted to elect their unions freely within universities but specifically prohibited from having a National Students' Union, promptly set up the latter under very left wing leadership and with the toleration of the government. There were also numerous, illegal but tolerated, strikes throughout the year accompanied in several cases by energetic picketing and police violence causing several deaths. Urban crime always endemic became epidemic. But the most serious threat of all to the political opening was the worsening economic situation.

4. During 1979 the government kept the volume of imports, both oil and non-oil, at the level necessary

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to achieve the 6 - 7% real growth made possible by monetary expansion and paid for the resulting trade deficit by increased foreign borrowing. The outcome at the end of the year was a current account deficit of US\$ 10 billion, a foreign debt of US\$ 50 billion, a debt service to merchandise exports ratio of over 70% and an inflation of 77%. As the volume of imports (apart from food) remained constant, or declined, the payments deficit was caused mainly by increases in import prices (especially of oil) and in interest rates on the growing foreign debt. The inflation was caused by the demand arising from the large public sector deficit (5% of GNP) with help from the cost push of import prices and real wage increases. The government's end of the year package of economic measures included the classic remedies of devaluation (30%) and monetary and fiscal restraint. The devaluation may in the short run help to increase exports, but the package also included the abolition of export subsidies and this will, in many cases, cancel out the effect of devaluation, although it will give Brazil a better negotiating position in international bodies, e.g. GATT. Given that all non-essential imports were cut out long ago and that further substitution of imports by local production is now difficult, devaluation is likely to have little effect on imports, which can only be cut significantly by a cut in growth. But the government are not at present prepared to sacrifice growth by much more than 1%. In spite of cuts and changes in public sector expenditure (including government subsidies equal to

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6% of GNP), monetary expansion is still planned to be about 50% in 1980 and the rate of inflation contemplated is still a minimum of 45%. President Figueiredo stated in December that further foreign borrowing was planned for 1980 and everyone expects that at least an additional US\$ 15 billion will be needed.

5. The reasons for the determination to maintain growth are not far to seek. If OECD countries adopt low growth to solve balance of payments and inflation problems the price they pay is an increase in unemployment. The unemployed in these countries live better than the average Brazilian in employment. In Brazil a decline in the growth rate means that the proportion of the 30 million people in the North East living at starvation level increases and workers elsewhere who become unemployed or fail to be employed, join the ranks of the absolutely poor, with no means of subsistence whatsoever except charity. At the moment there are 500,000 men in the North East employed on government relief schemes. This means 2½ million people subsisting on government relief, at a cost to the government of something over £3 million per week. Without this relief they would starve. In Brazil no attempt is, or can be, made by the government to relieve absolute poverty. If this is the situation with a 6% per annum real growth rate it is not hard to imagine the social and political effects of adopting in Brazil a deliberate policy of two or three years of recession. The arguments about whether the former Minister for Finance or the present Minister for Planning, Sr. Delfim

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Netto (who has now become the economic overlord in the government), were right about this or that percentage of inflation, or growth in the economy, are hardly material. As long as it is possible to continue to finance external deficits by borrowing and to keep inflation from running away above levels between 40 and 60% no Brazilian Government could contemplate any policy other than continued expansion.

6. The economic prospects for 1980 are not good. But they are not tragic. There are signs that oil consumption has been brought under control, oil prices are unlikely to rise as much in 1980 as they did in 1979, international interest rates are more likely to come down than go up; the measures taken in December 1979 are likely in the last three quarters of 1980 to bring the rate of inflation down, and, if the bad weather of 1979 is not repeated, production of the main crops will rise very considerably, helping to control internal prices, replacing some imports and perhaps providing a surplus for export. The new wage law introduced in 1979 should help to control wages whilst benefiting the lower paid, and the failure of the last engineering strike in São Paulo has helped to moderate trade union demands. In the longer term Brazilians, foreign businessmen here and I remain confident that the human and material resources of Brazil are such that, whatever happens in the next year or two, in the medium and long term Brazil can resume real growth at a 7% rate, and that the relative affluence of the southern part of the country will continue to spread North.

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7. Brazilian foreign policy in 1979 was the mixture as before, i.e. single minded pursuit of Brazilian interests everywhere, combined with a public stance of Brazil as a leader of the developing world. Within this combination of private pragmatism and public principle Brazil, reflecting its internal political change, moved to greater intimacy with the more democratic Latin American countries of Mexico and the Andean Pact, and to improving its relations with the US. The quarrel with Argentina over the use of the Paraná River was soon ended with the departure of Geisel's fiery Foreign Minister. Relations with the EEC remained reasonably good, despite some Brazilian carping during the visit of Commissioner Haferkamp about European protectionism. There was an increasing preoccupation with relations with the Middle Eastern oil producers, dictated by the need to secure oil supplies. Brazilian delaying tactics have ensured that a PLO representative office has not yet been set up here; but such is their vulnerability to pressure on oil that this may not long be delayed. Political relations with the UK remained good, but at a modest level.

8. What difference do events in Brazil in 1979 make to UK interests? These remain predominantly commercial. British businessmen have two standard questions about Brazil. The first is "How do the economic changes affect my chances of doing business with, or in, Brazil?" The second is: "How about political stability?" My answers, in the light of events of 1979, are as follows. Brazilian imports from

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the UK will continue to be limited to higher technology, capital equipment and spares, and specialised industrial raw materials. Total Brazilian imports of these goods hardly increased in volume, if at all, in 1979 and are unlikely to do so in 1980. UK invisible receipts from Brazil grew fast in 1979 and are likely to continue to do so in 1980. This applies particularly to interest and charges on loans but is also true of some other service activities. Most important for the future is that UK companies should not be put off by Brazil's current economic problems from giving serious consideration to the return which can be secured from entering the Brazilian market with technology allied preferably to joint ventures. This is particularly the case at the moment with sterling freed and cruzeiro assets relatively cheap and in respect of certain industries, of which coal may be the outstanding one. The world's tenth largest economy, with an average annual real growth of 7% over the last 30 years, must not be looked at with a short term view. As far as political stability is concerned the events of 1979 have not altered the soundness of the assumption that any foreseeable Brazilian Government is likely to maintain very much the same system as is in operation at the moment: the legislative bodies will become more representative and outspoken, but executive power will remain dominant and under the control of the present establishment. By "foreseeable" I would mean until 1985 when President Figueiredo will step down. My judgement

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is that at least until then the Government's political strategy will operate much as they expect at present and will not be defeated by the economic situation, which will, I believe, improve, perhaps in the second half of 1980 and certainly from 1982-1984. As far as inter-governmental relations are concerned, I think that the principal lesson of the events of 1979 for Her Majesty's Government is that relations with Brazil, particularly in respect to the North-South Dialogue, are best pursued, not by listening to what the Brazilians say in public but by identifying as closely as possible their real view of their interests and seeing how far we can go to help them to achieve these with mutual benefit.

I am,
My Lord,
Yours faithfully

George Hall
G. E. Hall

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LAST
PAPER

Reference

p.a.
Brazil Annual
Review.

ALB014/21

31 MAR 1980

CALENDAR OF EVENTS IN BRAZIL IN 1979

JANUARY

6 - 10

FCO Minister of State, Ted Rowlands MP, visits Açominas steel project in Minas Gerais then Brasilia following talks with Falkland Islanders in Rio de Janeiro.

Mr Rowlands has meetings with Senator Petronio Portella, Finance Minister Simonsen, President-Elect Figueiredo (First Minister of foreign Government to speak to President-Elect) and Foreign Minister Silveira. Mr Rowlands and Sr Silveira sign UK/Brazil cultural convention.

FEBRUARY

6

Over 800 reported dead in floods in States of Espirito Santo, Minas Gerais and Rio de Janeiro.

7

General Octavio Ramos, Minister of Supreme Military Court, defends amnesty for non-violent, non-terrorist political crimes.

11

Revised figures for uranium reserves in Ceará up to 71,000. (By end of 1979 estimate of recoverable reserves was over 200,000 tons).

14

Roberto Campos' memorandum to President Geisel on "Brazil's Foreign Policy Options 1979-88" published by Gazeta Mercantil.

38 Vietnamese refugees picked up by Brazilian ship arrive in Rio.

15

Petrol stations' hours reduced in attempt to save fuel.

Three São Paulo lawyers make representations to Itamaraty on behalf of 177 political exiles being refused passports.

18

Government imposes extra 5% tax on income to cover flood damage repairs.

19

General Hugo Abreu, ex-Head of President Geisel's Military Household publishes book citing examples of corruption in previous Government and criticising Ministers.

/ 20.

FEBRUARY (cont.)

- 20 Brazil rejects Argentina's claim that height of future Corpus hydroelectric dam should be increased to 105 metres, in favour of original 95.
- 24 Senator Sarney, Leader of ARENA in Senate, convenes a group of Deputies and Senators to draw up a new Organic Law of Political Parties.

MARCH

- 1 President Geisel opens Congress with "State of Union" speech. Criticised in Press for omission of any reference to the closure of Congress in 1977 and omission of mention of controversial acts during his Government.
- 5 Geisel and Figueiredo in Rio for opening of new Metro line.
- 6 Argentina's reply to Brazil's note about Itaipu/Corpus. Criticises Brazil's leak to the Press of diplomatic documents concerning the problem.
- 9 Figueiredo meets President of CNBB (National Council of Brazilian Bishops) Dom Aloisio Lorscheider. Determines to maintain dialogue with Church during his Administration.
- Army Minister asks São Paulo Department of Justice to bring to court "Veja" journalists who published article on 21 February about torture victims. At end of 1979 case still buried in court files.
- 10 Lord Carrington, Leader of Opposition in House of Lords, visits Brazil. In Brasilia Lord Carrington meets Karlos Rischbieter, new Minister for Finance, Sr Colin, Banco do Brasil, and Sr Luiz Vianna Filho, President of the Senate.
- 11 Future Minister of Planning Simonsen, declares that his priority will be fight against inflation.
- 13 200,000 metal workers begin strike in São Paulo having rejected Government's counter-proposal for a readjustment of salary including increases between 57%-63%. (Strike settled on 28 March).

/ 12, 13, 14

MARCH (cont.)

- 12, 13, 14 Visit of Sir Charles Troughton (Chairman, British Council) to Recife then Brasilia. Itamaraty give him lunch. Talks covered deeper interchange of literature (history, culture, even agriculture) in English.
- 15 99 delegations arrived in Brasilia on 14 March for Presidential inauguration including Presidents of Bolivia and Paraguay. (Wife of U.S. Vice-President comes in place of husband). Itamaraty pleased by presence of 99 delegations in comparison with 84 for Venezuelan inauguration and despite latter's proximity to Washington and role in OPEC. Minister of State, Mr Rowlands, HM Ambassador and A.U.S.S. Mr George Hall form U.K. delegation.
- 19 President Figueiredo addresses Ministers at first meeting affirming that priorities of new administration will be fight against inflation, agricultural development, political opening and the alcohol programme. He also says that current São Paulo wage claims are elitist, benefit minorities and do not help fight against inflation.
- 22 Visit of U.S. Vice-President Mondale to Brasilia for talks with President Figueiredo, Vice-President Aureliano Chaves, Foreign Minister Guerreiro, leaders of MDB Ulysses Guimarães, and ARENA José Sarney.
- Discussion of US/Brazil association on Nuclear Technology. U.S. impressed with Figueiredo's inauguration promise to return country to democracy with respect for human rights. Mondale's invitation to Figueiredo to visit U.S. accepted but no date fixed.

APRIL

- 3 Helmut Schmidt, FRG Chancellor, arrives in Brasilia for 5-day visit, to include São Paulo, Rio and Salvador. Has two meetings with Figueiredo, visits Congress, and is given dinner in Palacio da Alvorada. In São Paulo has talks with Governor Paulo Maluf and Cardinal Arns. He then travelled to Bahia to see two FRG Agro-Industrial projects near Petrolina. Much press speculation that FRG/Brazil nuclear deal will be abolished in view of cost and security (in light of accident at nuclear plant in Harrisburg USA).

APRIL (cont.)

- 6 RN Squadron under command of Rear Admiral D J Hallifax visits Rio, Recife and Fortaleza. Holds joint exercise with Brazilian Navy.
- 19 Figueiredo approves monetary package in an effort to control prices and reduce inflation
- 25 - 27 Italian Foreign Minister, Forlani, visits Rio and Brasilia for talks with Foreign Minister Guerreiro and Figueiredo. Talk of expanding commercial relations and Brazilians seek Italian support against alleged protectionism in EEC.
- 30 Reported that Figueiredo in favour of four political parties: one to support the Government; one in support but with freedom for independent action; two opposition parties, one of which might include left-wing elements such as Communist leader, Prestes.
- Agreement reached between Brazil and the United States to reduce taxes imposed by United States on Brazilian subsidised imports.

MAY

- 14 - 18 Iraqi Vice-President visits. In joint communique following visit Brazil recognises PLO as "only legitimate representative of Palestinian people". This re-emphasises Brazil's vote in favour of PLO at UN. Minister of Mines and Energy reveals that Brazil has come under pressure from Arab oil suppliers to meet political demands. Brazil reported to agree to establish PLO office: "a matter of time". At end of 1979 the office was still not established.
- 28 - 29 UNE meets in Salvador for first time since it was declared illegal in 1964. Students cannot agree on infrastructure for re-establishment of a National Union but decide on national student elections in September by secret ballot.

JUNE

- 1 Sharp fall in temperatures in São Paulo State and Minas Gerais causes alarm from Brazilian Coffee Institute. Frosts in South thought to have affected 25% of crop.

JUNE (cont.)

- 12 Government passes law revoking Decrees 477 and 228, returning to students right to act politically in schools and universities and annulling suspension of students from university for political activities.
- 19 PTB (Brazilian Labour Party) meeting in Lisbon under chairmanship of ex-Governor Leonel Brizola exiled since 1964. Communiqué published declaring necessity to return Brazil to institutional democracy. Brizola invites foreign journalists and MDB Deputies, and is reported to have said that "military will not be a problem: they will be disciplined by the people". This version is denied by Brizola and turns out to be incorrect.
- 25 Ex-Nazi Gustav Wagner permitted to remain in Brazil. Supreme Military Tribunal reject extradition demand from FRG, Austria, Israel and Poland on grounds that in Brazilian law he is not punishable for crime after 1966.
- 28 Figueiredo delivers emotional speech submitting draft amnesty law to Congress. Amnesty not restricted or unrestricted as demanded by Opposition but pardons all those convicted of political offences that cannot be considered "crimes against humanity" (e.g. terrorism, kidnapping and robbery). Those deprived of political rights Cassados or banished will be able to return to Brazil. Those awaiting trial will be absolved. The law will apply to approximately 5,000 and allow many political leaders to return.
- 25 - 29 London Chamber of Commerce and Industry visit Brazil (Rio, Brasilia and Sao Paulo) for meetings with Ministers and President. Team of leading British businessmen led by Sir Barrie Heath of GKN.
- 30 Estimate of number of political prisoners not affected by amnesty is 195. At end 1979 fewer than a dozen political prisoners remained in prison.

/ JULY

JULY

27 - 31

FCO Minister of State, Micholas Ridley MP and Mrs Ridley arrive in Brazil after visiting Falkland Islands and Buenos Aires. In Brasilia Mr Ridley meets Foreign Minister on 30 July. Explains position on Falkland Islands, seeks Brazilian support over Belize. Guerreiro hinted Brazil might accept token number of Vietnamese refugees ex-Hong Kong and would contribute to UNHCR fund. (In fact by end 1979 nothing further had been done by Brazil for such refugees).

31

Mr Ridley meets Finance Minister, Rischbieter, and Interior Minister Andreazza. Courtesy calls on Presidents of Senate and Chamber. President of Chamber agreed to promote IPU visit by British MPs in 1980, possibly during Easter recess.

AUGUST

1

Serious disturbances during Belo Horizonte strike by construction workers lead to violent demonstrations, rioting and looting. State Governor Francelino Pereira declares order to be maintained at all cost. One striker killed.

2

Disturbances continue in Belo Horizonte. São Paulo union leader Luis Ignaci da Silva (Lula) and other trade union leaders from São Paulo arrive to lend support to construction workers.

5 - 9

Spanish Prime Minister Adolfo Suarez, visits Rio, Brasilia and São Paulo for talks with President Figueiredo, Foreign Minister Guerreiro, Finance Minister Rischbieter, etc and meeting with Governor of São Paulo, Paulo Maluf. Adolfo Suarez concerned that Spain and Brazil should establish more even trade balance which at present is greatly in Brazil's favour.

10

Planning Minister Simonsen resigns, but resignation not confirmed until 12 August. Simonsen declares that only miracle can solve Brazil's economic problems. Delfim Netto confirmed as Planning Minister 14 August.

15 - 17

Japanese Foreign Minister Sonoda accompanied by three Government Ministers leads 35-strong team to Brazil. Brazilians ask Japanese for more investment. Japanese criticise Brazilian Government controls on foreign capital but agree to study Brazilian proposals for further investment.

AUGUST (cont.)

- 30 President Kaunda of Zambia pays 24-hour visit to Brasilia en-route to Havana for Non-Aligned Conference. Kaunda publicly urges Brazil's support for African struggle against colonialism and apartheid.
- 26 Aug. - Permanent Secretary Department of Trade Sir Peter
2 Sept. Carey visits Brazil. Meetings with Sr Elizeu Resende, Minister of Transport, President of Siderbras and senior officials at the Ministries of External Relations, Ministry of Mines and Energy, Planning Secretariat and Ministry of Industry and Commerce.
- 27 - 30 Mr G W Harding, AUSS-designate, FCO, visits Brazil. Meetings in Brasilia with Itamaraty senior officials, Parliamentary leaders and Central Bank.

SEPTEMBER

- 10 Ex-Governor Leonel Brizola returns from exile to fairly quiet reception in his home state of Rio Grande do Sul.
- 12 - 21 Visit to Brazil of team of students of Royal College of Defence Studies.
- 12 MDB leader Ulysses Guimarães hands over document to IPU Parliamentarians in Caracas criticising Government plans to extinguish Opposition Party.
- 13 Bank strike of 225,000 workers begins in Rio and São Paulo leading to vandalism, attacks on bank premises by marauding youths.
- 14 Police arrest over 200 during bank strike in São Paulo
- 15 Enthusiastic reception for ex-Governor Miguel Arraes in Pernambuco on his return from exile.
- 27 Engineering workers in Belo Horizonte on strike. One striker dies in disturbance.

OCTOBER

- 2 President Figueiredo signs decree intended to discourage students from voting for the reorganisation of the UNE. Many students ignore decree and vote anyway.

OCTOBER (cont.)

- 9 - 15 Vice President of EEC Commission, Wilhelm Haferkamp visits Rio and Brasilia for Brazil/EEC Mixed Commission meeting. Haferkamp is told by Government Ministers that economic programme of Brazil can be carried out irrespective of social or political effects.
- 5 Rui Costa da Silva, Bahian Marxist elected as UNE President. Election seen as victory for Left-wing student groups but only one-third Brazil's students voted.
- 15 - 18 Peruvian President Bermudez visits Brazil. Peru ratifies Amazonian pact, signing Act of Brasilia, and Agreement of Friendship and Cooperation: Brazil granted observer status at Andean Pact Meetings.
- 16 - 19 Financial Times Conference in Rio on Brazil: "The Outlook for the 1980s".
- 23 Minister of Health, Castro Lima, asks to resign for "insuperable family reasons". He is replaced in October by Waldyr Arcoverde.
- 26 Pope declares intention to visit Brazil in June next year.
- 31 São Paulo metal worker who is also Catholic Action leader is killed during clash with police while on strike in Osasco. Church leaders offer use of buildings for workers' meetings.

NOVEMBER

- 1 New President of FUNAI, Coronel João Carlos Nobre da Veiga chosen to replace Ademar Ribeiro.
- 6 International Federation of Engineering Workers sends telegram to Brazilian Government to protest against killing of São Paulo striker.
- President Figueiredo on State Visit to Venezuela. His first abroad as President and first ever by a President of Brazil to Venezuela.
- 13 Nuclebras and Itamaraty reveal that Iraq has asked for nuclear technology in exchange for oil and Iran is putting pressure on Brazil to buy a percentage of oil on the "spot" market.
- 13 Jorge Casteneda, Mexican Foreign Minister, pays 3-day visit prior to impending visit by Pres. Lopez Portello next year. Mexico agrees to only mild increase in sales to Brazil.

NOVEMBER (cont.)

- 20 Delfim Netto travels to Middle East in search of assured oil supplies from Iraq: possibility of nuclear cooperation also discussed.
- 22 Government's draft on party reform approved by Congress. Article 2 extinguishes the two parties but a coalition of ARENA dissidents with the opposition MDB removes Article 5 which permits the "sublegenda". The law goes to the President for approval.
- 27 - 30 British Technology Seminar, São Paulo. Attended by Brazilian Government Minister of Industry and Commerce - Camilo Penna and Governor of São Paulo - Paulo Maluf.

DECEMBER

- 1 President Figueiredo exchanges insults with students in Florianopolis and loses his temper. There is an exchange of blows between the students and members of the President's party.
- 6 Senator Tancredo Neves announces formation of PPB (Partido Popular Brasileiro).
- 7 President Figueiredo speaks to the Nation announcing an economic package which includes maxi devaluation of the cruzeiro by 30% and the abolition of the Law of "similar" and subsidies for exports.
- 21 President approves law on party reform but maintains the "sublegenda".
- Existing parties ARENA and MDB are thus abolished.
- 22 - 23 Partido do Movimento Democrático Brasileiro. Partido Trabalhista Brasileiro and Partido Popular announce their programmes. Partido Popular's programme contains some modified rhetoric and references to action against multinationals.

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Foreign and Commonwealth Office
London SW1A 2AH

Telephone 01

253 4970

G E Hall Esq CMG
BRASILIA

RECEIVED	
7 MAR 1980	
Your reference	
DESK	HY
IN	PA
Date	5 March 1980

Dear George,

ANNUAL REVIEW

1. Many thanks for your Review of 1979, which we are having printed as a Diplomatic Report.
2. The situation in Brazil, both politically and economically, is finely balanced. The Government have, as you say, a rather limited choice of options. The Government are not entirely master of Brazil's destiny, given Brazil's dependence for continuing growth on a number of extraneous world economic developments (oil prices, interest rates, borrowing). The attitude of international bankers will be crucial: they are already more cautious but their room for manoeuvre is equally limited; to some extent the banks are already locked in and they have a considerable investment in Brazil's economic success. Brazil will continue to get money but it will have to pay for it now in higher rates and in due course in repayments. If Brazil were to be forced off its growth path, the timetable for the political "abertura" might well be affected. It all seems very much a gamble, with the old magician Delfim Netto playing a crucial confidence role centre stage. We shall be fascinated to watch his and Brazil's performance.
3. The developments in Brazil's foreign policy which you summarize are also of interest. Brazil seems to have made some considerable effort to improve relations with her neighbours, many of whom historically and presently fear her size and influence. The agreements with Paraguay and Argentina over the use of the Parana River appear to have been generous and have been reached more quickly than expected; the response to Andean Pact overtures has been warmer than anticipated; and the present cordiality and co-operation which marks relations with Argentina and Venezuela, albeit inspired by energy considerations, has not always been so.

CONFIDENTIAL

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CONFIDENTIAL

-2-

4. Paradoxically, Brazil's current economic difficulties present a particular opportunity for British investors and exporters. DOT and LATAG are aware of this. The Sao Paulo Technology Seminar proved in retrospect to be even better timed than we thought. HMG's interest in Brazil will be evident from the number of Ministerial visitors we expect over the next few months.

Yours ever

G A Duggan

G A Duggan
South America Department

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②

Mr. Harding

A-8014/2		
13 MAR 1980		
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		Action Taken

BRAZIL: ANNUAL REVIEW FOR 1979

Flag A
Flag B

1. I submit Mr Hall's 1979 Annual Review of Brazil, together with the reply I have sent to catch the bag. The despatch is being printed as a Diplomatic Report.

2. This is an enjoyable account of a tricky situation. Brazil continues to move along the path of "abertura". But the political scene is almost overshadowed by the Government's efforts to tackle the serious economic problems brought about by the country's heavy dependence on imported oil. The Government is committed to maintaining a high level of growth and for this it will depend on further substantial overseas borrowing. Mr Hall is optimistic and foresees an economic improvement not too far ahead.

G A Duggan

G A Duggan
South America Dept.

6 March 1980

Mr Hall takes a relatively sanguine view of his medium-term outlook. His point about growth being his only viable policy (paragraph 5) is well made. But Delfino Avelar's gamble is still a gamble. British investors in Brazil will have to accept what as a fact and hedge their bets accordingly.

Mr Roberts to file
Mr. [unclear] [unclear]
CONFIDENTIAL
21073

4/10/80

DESPATCH FOR URGENT ATTENTION

Section Clerk (for para 1)

Desk Officer (for paras 2, 3, 4 and 5)

Assistant Head of Department

Head of Department

Redraft - letter sent

✓ 3

TITLE OF DESPATCH..... BRAZIL ANNUAL REVIEW FOR 1979

1. I attach a copy of despatch from..... BRASILIA.....
dated..... 21/1/80..... received here on..... 30/1/80.....

2. Advance copies are being sent to:

Dept of Trade ✓
Bank of England ✓
ECGD ✓
Treasury ✓
Dept of Industry (N. J. Thompson)

RD (A) ✓
Econ Dept ✓

3. Comments

See drafts attached.

4. Separate action is being taken for distribution and printing.

5. I submit a draft letter of acknowledgment + draft submission

M. G. Roberts

(Desk Officer)