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FOREIGN AND COMMONWEALTH OFFICE

DIPLOMATIC REPORT No. 68/81

ALB 014/2

General/Economic Distribution

BRAZIL

22 January, 1981

BRAZIL: ANNUAL REVIEW FOR 1980

*The British Chargé d'Affaires at Brasilia to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

In 1980 Brazil's economic situation deteriorated, but as yet without serious impact upon the political scene. The Government's creation of new political parties successfully split the Opposition, and politicians spent most of the year in internal manœuvrings. President Figueiredo's political touch suffered from the death of the Minister of Justice early in the year but his commitment to the *abertura*, the move towards a more democratic form of government, was accepted as sincere. Right-wing elements and the Church each in their way caused difficulties for the Government (paragraphs 1-7).

2. Delfim Netto, the Minister of Planning, was given his head but the year went badly for him. Inflation rose to 110 per cent and oil imports accounted for nearly 50 per cent of total imports. Brazil will probably have to go to the International Monetary Fund in 1981, but Delfim's credibility remains a problem. He has, however, had some success. Exports increased by 33 per cent. 1980 was a good year for agriculture and for mineral extraction. The Brazilian birth rate is lower than expected (paragraphs 8-10).

3. In foreign affairs the emphasis remained on Latin America, and North-South issues continued to receive more attention than the East-West conflict. The Iran/Iraq war caused less harm to Brazil than expected (paragraphs 11 and 12).

4. The Secretary of State's visit boosted Anglo/Brazilian relations. There is scope for further co-operation on political as well as economic issues. Commercial opportunities remain attractive despite import restrictions. Brazil will need international understanding to help her through her immediate economic problems (paragraphs 13 and 14).

(Confidential)
My Lord,

*Brasilia,
22 January, 1981.*

In 1980 Brazil experienced a deterioration in her economic situation despite the relative optimism with which the year began. The political impact of these economic difficulties, however, has so far been less than might have been feared, and the gradual and at times rather halting movement towards more democracy—the *abertura*—had continued.

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2. Politically, the year opened with the new political parties trying to find their feet, and as it ran its course the success of the Government's initiative in enforcing their creation, primarily in order to split the Opposition, became clear. There are now five parties, ranging from the "bankers' party" (PP) to the Workers' Party (PT). Even the Communist Party, although officially banned, still manages to operate. Party affiliations have remained very fluid, however, and the Government's own party (it is not, however, that party's Government), the PDS, has already been visibly fraying at the edges.

3. The politicians themselves have not earned much sympathy, and indeed have encouraged cynicism, by their concentration on domestic squabbles and manoeuvring. Even the bold attempt of the President of the Chamber of Deputies to regain Parliamentary prerogatives for Congress was defeated through lack of organisation and support from his colleagues. Above all, the Opposition parties have failed to stimulate any searching debate on Delfim Netto's economic policies and have been far from proposing alternatives. Their unpreparedness for responsibility was shown by their acceptance of the Government's postponement until late 1982 of the Municipal elections due to take place last November. This tactic may yet prove a misjudgment by the President, although the PDS majority (now very slim indeed) will probably swell again as the election date approaches.

4. In many ways the President has missed the subtle touch of Petronio Portela, the Minister of Justice and *de facto* political manager, who died in January. His successor, Abi-Ackel, made heavy weather of the new "foreigners' law" on immigration; drew unnecessary opprobrium on the Government in the clumsy expulsion from Brazil of an Italian missionary who, for reasons of social conscience, refused to celebrate a special Mass on Independence Day; and lost, where he could have gained credit, in an unsuccessful attempt to prevent a Brazilian Indian leader from attending the Russell Tribunal at The Hague. When the liberal but inadequate Minister of Education, Eduardo Portela, was sacked in November the choice of a newly promoted army General, Rubens Carlos Ludwig, to succeed him was widely agreed to show either a surprising lack of political sensitivity by President Figueiredo and his closest advisers or a worrying readiness to override that consideration—despite the recognised ability of the newcomer. In December the Minister of Social Communication was removed from his post, in another move which suggested some closing of the ranks on the part of the President's immediate military advisers, General Golbery and the Heads of the Military Household and the National Intelligence Service—Generals Venturini and Medeiros.

5. Against this background of military uncertainty and political manoeuvring the pace of *abertura* in 1980 was less rapid than in 1979, but President Figueiredo's commitment to it is now generally accepted as sincere. After all, the Indian leader did reach The Hague; and another major step towards democracy was recently taken with the decision to allow open elections for State Governors in 1982. For someone absent from Brazil from March 1976 to August 1979 (as I was), the freer atmosphere in the country is itself striking indeed, and the frank and very funny political cartoons are only one example of this.

6. The process of course still has many opponents. General Serpa, a four star General, was removed from his post in April for making speeches attacking Brazilian dependence on economic technocrats and on multinationals, and was recently punished again (by two days' confinement to his home) for signing a

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7. The Church in Brazil continued to involve itself in the country's social problems and, despite the variety of ways in which the message of the Pope during his momentous visit here in July was interpreted, the leaders of the Church felt greatly strengthened by that visit. They in a sense provide more real opposition to the Government than do the political parties. But, because most of them are conscious of the Pope's exhortation that their prime duty is religious rather than political, the Church is in my view more likely to remain a salutary influence on the Government than to threaten its stability. That view is not shared by the military, some of whom believe many priests in Brazil to be Communists or Marxists. Church leaders in São Paulo also upset business opinion, by their support in April/May for the strike of engineering workers (when the union leader and potential politician "Lula" was removed from union office by the Government).

8. After that major strike there was little industrial unrest during the remainder of 1980, but businessmen became increasingly concerned by the uncertain prospects for 1981. Delfim Netto consolidated his position as economic overlord in January with the replacement of Rischbieter by Galveas at the Ministry of Finance, but the year then went very badly for him. Inflation rose from 77 per cent to 110 per cent, and foreign reserves declined to near their minimum acceptable level. The balance of trade deficit was US\$2.8 billion, despite severe and varied import restrictions, with oil accounting for nearly 50 per cent of the import total. The balance of payments deficit was successfully financed, but the Brazilian Government is expected during 1981 to seek—however reluctantly—the guarantee of the IMF in order to ensure sufficient continuation of private bank loans. In this context, in particular, the country is suffering from Delfim Netto's low personal credibility, following his unconvincing efforts during 1980 to keep foreign bankers sufficiently well informed about economic developments.

9. On the credit side, Delfim made further progress in bringing the economy under control with a more refined budgetary policy and a partly successful credit and monetary squeeze. The alcohol programme is developing well, and oil consumption was reduced by 2 per cent despite a national growth rate of 8.5 per cent. Exports increased by 33 per cent, and Brazil's significance as an armaments supplier became more widely recognised. Gold production jumped to 40 tons, and mineral extraction in general increased by 15 per cent. The Government's attempt to attract Arab investment made a start with a Kuwaiti purchase of 10 per cent of the Volkswagen subsidiary here. Agriculture had a much better year despite appalling drought in the North-East. The 1980 Census discovery that Brazil's population growth rate during the '70s was 2.4 per cent rather than 2.7 per cent cheered the Government considerably. That growth rate justifies the continuing insistence on growth in the economy also, although 4-5 per cent will be the target this year. Family planning is at last receiving cautious official support.

10. Despite these encouraging signs the economic situation remains the main threat to political stability. Increasing inflation is not expected to cause serious social disturbances, and neither the form of government nor its leaders,

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apart from perhaps the rather special case of Delfim Netto himself, appear to be in danger, but it is a little less easy to be confident in that judgment than would have been the case a year ago. Fortunately Brazil at least faces no external threat in addition to these domestic preoccupations.

11. In respect of foreign policy Brazil's immediate concern in 1980 was the Iran/Iraq conflict, but the consequent emphasis on oil saving and on seeking alternative energy sources probably balanced the adverse impact of that conflict itself. More widely the emphasis remained on Latin America, where President Figueiredo made further visits including one to the traditional rival, Argentina. Assiduous efforts were made to persuade the smaller neighbours that Brazil does not have hegemonistic ambitions, and the Amazon Pact received much Brazilian publicity and support. Brazil helped in the formation of the Latin American Association for Development and Integration (ALADI), but probably without much conviction that it will do much better than the Latin American Free Trade Association.

12. The East-West conflict continued to receive far less attention than the North-South dialogue. The familiar Brazilian combination of responsible pragmatism and economic necessity persuaded the Government not to join the economic and Olympic boycott of the USSR after the Afghanistan invasion. A new Economic Co-operation Agreement was signed with the European Community, but Brazil continued to protest against Community protectionism. Black African countries received much Brazilian attention, including visits by the Foreign Minister. More consideration has been given to the future protection of trade routes in the South Atlantic, and the Brazilian Navy would clearly welcome continued operational links with the Royal Navy: this in turn has important defence sales implications for the UK in view of our close involvement with Brazilian naval procurement.

13. Anglo-Brazilian relations were given a timely and welcome boost by your own very successful visit here. The UK ranks highly among Brazilian priorities only in limited areas, but your visit reminded the Brazilian Government of our wide experience in the handling of international problems and thus of the contribution which we could make to their understanding of them. Brazil is inevitably, although slowly, moving towards more commitment on international issues, and as she does so we need to contribute our assessments in the hope of influencing the Brazilian stance. The Iran/Iraq conflict gave us an opportunity to provide a purely informative input which was appreciated. Other countries, including France, courted Brazil assiduously in 1980, and Japan is forging with her a considerable economic alliance. We cannot afford to fall behind.

14. The immediate future of Brazil is fraught with problems, but the capacity of her people is such that Brazil will, in my view, survive them to become a major economic power by the turn of the century. She will need a great deal of international understanding in the intervening period, but the wide recognition of that potential will no doubt ensure that this understanding will be forthcoming. For the UK, even in the short term, current non-oil imports of over US\$12 billion per annum (by far the highest in Latin America) make an attractive target however selective they may be, and our industry's strong position in, for example, oil exploration and coal mining technology offers hopeful prospects.

I am Sir

Yours faithfully

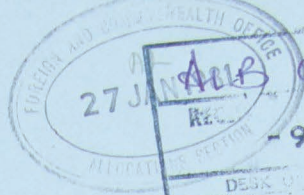
W. J. HALL.

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BRITISH EMBASSY
BRASILIA

ANB 014/3

9 FEB 1981

22 January 1981

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BRITISH EMBASSY
BRASILIA

014/3

22 January 1981

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

My Lord

BRAZIL: ANNUAL REVIEW FOR 1980

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mining technology offers hopeful prospects.

I am,
My Lord,
Yours faithfully,

A handwritten signature in dark ink, appearing to read 'W.J. Hall', written in a cursive style.

W.J. Hall

CONFIDENTIAL



Mr Jenkins

Jr

ALB 014/2
REC
- 3 FEB 1981

CALENDAR OF EVENTS IN BRAZIL IN 1980

JANUARY

- 8 Brazil signs Nuclear Agreement with Iraq.
- 9 Deputy Ibrahim Abi-Ackel succeeds Petronio Portella as Minister of Justice.
- 10 Petrobras surrender to Iraq two successful risk contracts (Majnoon and Nahr Umr oilwells) in exchange for promise of increase in supply of crude for next 13 years at 160.000 b.p.d.
- 11 Iraq becomes temporarily supplier of 60% of Brazil's oil. undertakes to make up any shortfall in Brazil's oil supplies in the event of future difficulties. In return Brazil agrees to export enriched uranium and arms to Iraq.
- 12 Following Soviet intervention in Afghanistan Delfim Netto states Brazil will not join boycott and hopes to use opportunity to penetrate Soviet market with exports of foodstuffs.
- 15 - 17 Foreign Minister Guerreiro flies to Lima for 2-day meeting with Foreign Ministers of Andean Pact. Brazil's first attendance at Pact meetings as observer.
- 15 Minister of Finance Rischbieter resigns on grounds that continuation in office will create embarrassment for the "unity of orientation of economic policy".
- 16 - 17 The Rt Hon Edward Heath, MP arrives in Brasilia as member of Brandt Commission advisory team. In Brasilia he meets President, Planning Minister and Minister of Industry and Commerce. Meets other Ministers and politicians at dinner
- 17 Ernane Galveas, previously President of Banco Central assumes office as Minister of Finance. Carlos Langoni becomes President of Banco Central.
- 18 After meetings lasting 2 days in Lima Guerreiro signs agreement for permanent mechanism for exchange of information, consultations and coordination between Brazilian Foreign Minister and Andean Council. to take place annually.
- 20 On return from Lima Guerreiro announces Brazil feels no obligation to support US foreign policy over Afghanistan and will continue to sell soya and cereals to USSR.
- 22 Presidency of Republic sends text of Brazil/Iraq nuclear agreement to Congress.



- 27 Argentine President of National Commission of Atomic Energy. Castro Madero, arrives in Brasilia. Discussions expected to lead to signing of nuclear agreement Brazil/Argentina when President Figueiredo visits Argentina in May.
- 28 Carter's special envoy General Andrew Jackson Goodpaster arrives in Brasilia to discuss US boycott of USSR.
- 29 President Figueiredo advises General Jackson Goodpaster that Brazil is unable to support US boycott of USSR. Figueiredo reconfirms Brazil's principle of non-intervention and declines to agree to a boycott of Moscow Olympics.

FEBRUARY

- 5 - 6 President Sekhou Touré of Popular Revolutionary Government of Guinea visits Brasilia. Calls for increased commercial exchange and identification Brazil with Third World.
- 8 President Figueiredo informs President Havelange of FIFA in Brasilia that Brazil will not participate in boycott of Olympic games.
- 13 Itamaraty react cautiously to suggestion by Madero of Argentine Commission of Atomic Energy, that Latin American countries should form a nuclear block.
- 22 U.S.A. decide to substantially reduce taxes on Brazilian basic products for export, such as textiles, shoes and light steel products as concession following Delfim Netto's visit.
- 26 Exchange of Ambassadors Egypt-Israel prompts street demonstrations by 200 protestors in Brasilia including PLO representative, and Arab Ambassadors including Ambassador of Iraq.
- 27 Delfim Netto meets Secretaries of State for Trade and Industry and the Chancellor of the Exchequer in London and representatives of British, Swiss, Japanese banks and Arab European Bank. Says Brazil hopes to secure total of US\$12 billion in loans, up to end of year: \$5 in new money, \$7m to cover debt servicing. Opportunities for British involvement in development of Brazilian steel industry are discussed.
- 28 Delfim Netto confirms in London that Brazil made a proposal to buy a steel-rolling mill complex ordered by British Steel from Davy Group; price reported to be 58 million pounds.

/ MARCH



MARCH

- 16 U.S. Embassy declare no intention to denounce US-Brazil Nuclear Agreement (1972) amidst press speculation that US Non-Proliferation Act (1978) could mean obligation on Brazil at end of 2 years (March 1980) to sign tripartite agreement with US. IAEA agreeing to introduction of safeguards.
- 19 Foreign Minister confirms that President Figueiredo entreated President Aparicio Mendez of Uruguay on 6 March to do everything in his power to ensure release of Flavia Schilling, a Brazilian political prisoner.
- 27 Ceremony at Palacio do Planalto to celebrate start of sales of alcohol cars to private individuals.
- 29 Superintendent of FUNAI resigns claiming that under new Director (João Carlos Nobre da Veiga) "there have been no conditions for constructive work" i.e. since December 1979.
- 31 Following a general meeting with 80,000 workers from São Bernardo, Santo André and Diadema, the metalworkers decide to go on strike.

APRIL

- 1 ABC Metalworkers union begin strike by distribution of pamphlets recommending non-strikers not to put in extra time. Labour Minister Murillo Macedo confirms government will not intervene unless there is evidence of incitement to strike.
- 16 Formal invitation to President Figueiredo from Brezhnev to visit Moscow delivered by Soviet parliamentary delegation visiting Brasilia.
- 17 General Antonio Carlos de Andrade Serpa, Chief of General Personnel Department of Army dismissed by President Figueiredo for criticism of Government's energy and technology policy, call for corrections in the distribution of income and warning against influence of multinationals.
- 18 Brazil and EC sign new general agreement on commercial and economic cooperation to last 5 years giving Brazil most favoured nation status.
- 20 Having declared São Bernardo and Diadema strike illegal Federal Police and DOPS detain Lula, 2 lawyers, an engineer and 11 people accused of involvement in strike. Government spokesman explains detentions took place under National Security Law. Labour Minister Macedo claims to know nothing of arrest nor Justice Minister Abi-Ackel. Macedo claims communist influence in strike movement.



- 20 70,000 strikers vote to continue strike. Later revealed number arrested on 19 and 20 April was 29 by DOPS including members of Catholic Commission of Peace and Justice. Later all but 14 released.
- 21 Brasilia celebrates 20 years.
- 25 Delegations from French trade union organisations deliver protest letters to Brazilian Embassy in Paris; against human rights violations and violations of trade union freedom during metalworkers strike. French trade unions begin to collect money for São Paulo strike fund.
- Charles Olivier Stirn, French Foreign Minister, arrives for 5-day official visit (during which protocol of CR*23bn financial agreement for transport and energy development in Brazil signed).
- 26 Three more ABC union leaders imprisoned.
- MAY
- 6 UK Secretary of State for Trade, Mr John Nott, MP arrives Brasilia for 4-day official visit to Brasilia.
- 6 Army Minister Gen Pires asks Justice Minister to prosecute Deputy João Cunha (ex-MDB, SP) under Article 154 of the Constitution for utterances offensive to the President of the Republic and the Armed Forces in speech to Chamber of Deputies on 28/4.
- President Figueiredo begins 3-day State Visit to Argentina.
- 18 Leonel Brizola announces intention to launch new Partido do Trabalhismo Democrático (PTD).
- 19 Executive of Partido Comunista Brasileiro (PCB) announce that Luis Carlos Prestes no longer Secretary-General of Party.
- 25 São Paulo State Convention of Partido dos Trabalhadores (PT) elect Lula as their leader.
- 26 Brizola announces name of his new party will be Partido Democrático Trabalhista (PDT) instead of PTD (see entry for 18/5 above).
- Herr Willibald Pahr, Austrian Foreign Minister, arrives in Brasilia for 3-day official visit.
- 29 Chancellor Guerreiro begins official visit to Federal German Republic.
- 31 President Figueiredo meets Paraguayan President Gen Stroessner at Goiânia Agricultural Exhibition.

/ JUNE



JUNE

- 1 Chancellor Guerreiro starts his tour of Africa in Dar-es-Salaam (there until 3 June. in Lusaka 3-5 June. Maputo 5-8 June. Salisbury 8-9 June. and Luanda 9-11 June)
- 10 Former Federal President Jânio Quadros accepts Da. Ivete Vargas' invitation to become National President of the PTB.
- 16 President Luis Cabral of Guinea-Bissau arrives in Brasilia for 7-day official visit to Brazil.
- 17 Marcílio Amendment (to restore Parliamentary prerogatives) read for the first time in Congress.
- 26 Chancellor Guerreiro starts 3-day official visit to Chile.
- 30 His holiness Pope John Paul II arrives in Brasilia at start of 12-day visit to Brazil at invitation of the CNBB.

JULY

- 1 Mr John Donaldson. Foreign Minister of Trinidad and Tobago. starts two-day official visit to Brazil.
2. São Paulo lawyer Dalmo Dallari. former President of São Paulo Justice and Peace Commission. beaten up on eve of Pope's visit to São Paulo.
- 10 Car of Federal Deputy Marcelo Cerqueira (PMDB-RJ) blown up outside his Rio home.
- 11 Pope John Paul II leaves Manaus for Rome at the end of his visit to Brazil.
- 13 Dom Ivo Lorscheiter. CNBB President. condemns proposed new lei dos estrangeiros at closing session of Tenth Eucharistic Congress in Fortaleza.
- 21 President Figueiredo meets Cardinal Lorscheiter to discuss lei dos estrangeiros proposals.
- 28 President Lopez Portillo of Mexico arrives in Brasilia from Manaus to start 3-day official visit.
- 29 Lord Carrington and party arrive in Recife to start 3 1/2 day visit to Brazil.

AUGUST

- 5 Government bill for new lei dos estrangeiros obtains Congressional approval by default (decurso de prazo) when Congressmen boycott final session of period constitutionally provided for consideration and thus create lack of quorum for a vote.



- 11 Minister of Justice announces that new lei dos estrangeiros will not expel from Brazil foreigners married to Brazilians.
- 19 President Videla of Argentina arrives in Brasilia for 5-day official visit to Brasilia, Rio, São Paulo and Porto Alegre.
- 20 President Videla promises Argentina will also have authentic democratic regime during speech at signing of protocols to nuclear agreements. Foreign Minister Guerreiro announces Brazil will vote against UN or OEA condemnation of Argentina for human rights reasons.
- 22 Student protest in Porto Alegre against President Videla's visit is broken up by military police.
- 29 Letter delivered to Department of Journalism of Radio Jornal do Brasil signed by Vanguarda de Caca aos Comunistas (VCC) claiming responsibility for the two most serious bomb attacks in Rio on 27 August. Letter speaks of "support of Brazilian people to save the nation once more from the red threat it is being driven towards by a corrupt government".
- 30 Four opposition parties announce support for President's decision to not fight violence with violence but to use legislation against terrorists.

SEPTEMBER

- 4 Amendment extending mandates of prefects, vice-prefects and town councillors until 31 January 1983 accepted by Congress. Municipal elections postponed for two years. Amendment won by 218 votes to 12 Opposition. (PMDB, PDT, PTB, PT) did not vote.
- 7 Minister Delfim Netto travels to Europe. In Paris expected to arrange large investment in energy and minerals. In London intends to see Brazil's main creditors and explain adjustments to economy and measures being taken to overcome economic difficulties. In Frankfurt takes part in launching of 100 million mark credit for Nuclebras.
- 8 Figueiredo announces export target for 1981: 26 billion dollars.
- 9 Planning Minister, Delfim Netto, visits Treasury and Brazilian Ambassador in London. Roberto Campos.
- 10 Volkswagen introduces system of worker representation on management boards. 23 worker representatives from 46,000 workers at three factories to be elected.
- Uruguayan Foreign Minister visits Brasilia. In official speech announces that Uruguay mistrusts idea suggested by Bolivian President Meza of alliances or power blocks in Southern Cone.



- 12 Roberto Palleschi, Italian Deputy Minister of External Trade, arrives in Brasilia. Discussions with Ministers including Guerreiro consider possibility of joint ventures in North and North East.
- 17 Foreign Minister Guerreiro signs agreement of economic cooperation EC/Brazil in Brussels. Agreement intended to reduce customs barriers and so create more intense trade. Also foresees cooperation in alternative energy sources research. Five year agreement renewable annually on expiry.
- 19 Minister of Justice announces that new draft lei dos estrangeiros will guarantee that foreigners married for five years with Brazilian spouses and dependent children will not be liable to expulsion.
- 24 Iraq suspends supply of 400,000 bpd to Brazil following occupation by Iranian forces of Strait of Hormuz.
- 25 After emergency meeting Ministry of Industry and Commerce recommend to Government suspension of exports of alcohol and petrol until full supply of Middle East oil is restored.
- 26 Delegation from the United Arab Emirates led by President of the Chamber of Commerce arrives in Brasilia. UAE suggest Brazil should open export outpost in Abu Dhabi to centralise distribution of Brazilian products in Middle East.
- 29 Foreign Minister Guerreiro arrives in Ottawa for official visit. Discussions to include Canadian Development Agency's intention to suspend financial aid to Brazil.
- OCTOBER
- 3 Finance Minister Ernane Galvêas comments "it is essential to correct distorted image of IMF in Brazil: the Fund was created to be used". Interpreted by some to be first stage of preparing Brazilian public to accept recourse to IMF.
- Petrobras announce new contracts with five countries for supply of 118,000 bpd at average prices between 31-32 US dollars: Gabon, Venezuela, Indonesia, Ecuador, and Saudi Arabia.
- Gustav Franz Wagner, ex-Nazi Commander of Sobibor Concentration Camp and subject of extradition requests from FRG, Israel, Poland and Austria, commits suicide in São Paulo.
- 6 Kuwaiti Finance Minister on visit to Brasilia announces opening of a branch of Arab Latin America Bank in Rio de Janeiro in October. Advises Brazilians to look to Bank for investments.



- 7 Soviet Union enters into contract with Petrobras to supply 20.000 bpd until end of year. Similar contracts signed with Angola (8.000 bpd) and China (18.000 bpd).
- 8 President Figueiredo arrives in Santiago on State Visit; becoming fourth Head of State to visit Chile post-Allende. Chile's political isolation since 1973 encouraged only short visits by Presidents Mendez (Uruguay), Stroessner (Paraguay), Videla (Argentina).
- 10 President Figueiredo makes an appeal to other nations to end Chile's isolation and follow example of his visit to Chile.
- 11 Venezuela agrees to sell extra 30.000 bpd of oil to Brazil in exchange for sugar.
- 15 Marcílio Amendment, aimed at restoring prerogative powers to Congress, is rejected by Congress; 196 votes in favour of rejection, 16 against rejection and 6 abstentions.
- President Figueiredo signs decree expelling Italian priest, Vito Miracapillo, living in Pernambuco, from country, for refusing to celebrate commemoration masses during National Independence celebrations. (Miracapillo justified his actions because Brazilian people in his parish were not in his view independent but reduced to beggars and deprived of their rights).
- 16 Brazil included among 10 countries cited in Inter-American Human Rights Commission document which expresses concern about torture, assassinations and arbitrary arrest in continent.
- 21 Delfim Netto begins 4-day visit to France; among topics for discussion is US\$130 million oil platform ordered from French.
- 22 Delfim Netto meets Governor of Bank of England, Minister of State FCO with a group of major bankers in London, reportedly advised that recourse to IMF is way to solve Brazil's economic difficulties.
- 24 Delfim Netto meets French President in Paris and later signs contracts for US\$901 million for hydro-electric projects in São Paulo and purchase of two underwater exploration platforms.
- 27 During Delfim Netto's visit to Tokyo Japanese express interest in Brazilian alcohol programme; press announce possibility of Japanese finance for alcohol production in Brazil for consumption in cars in Japan.



- 28 Delfim Netto signs two loans in Tokyo from EXIMBANK for Petrobras and BNDE to value of US\$100 million. Urges further Japanese investment in Brazil in private sector and invites Prime Minister Suzuki to visit Brazil. Re-confirms to Japanese that Brazil will not look to IMF for funds.
- 29 Minister of Justice dismisses Governor of Mato Grosso do Sul. Marcelo Miranda. replaced by Senator Pedro Pedrossian. Appointment of Pedrossian provokes two Senators and two Deputies to transfer to Opposition. Replacement ostensibly for political reasons; need for good PDS politician for 1982 elections for State Governors.
- 30 STF decide unanimously to uphold President's expulsion decree on Padre Vito.

NOVEMBER

- 3 Governor of Baden Wurtemberg visits Brasilia and stresses FRG's confidence in Brazil especially after abertura.
- Petrobras signs contract with Sinochen for supply of 20,000 bpd from China during 1981.
- US Secretary of State Edmund Muskie cancels visit to Brazil planned for 9 November.
- Mexico agrees to increase oil supplies to Brazil to 60,000 bpd next year.
- 14 Petrobras sign four risk contracts with Conoco for oil exploration off Pará and Alagoas.
- Congress re-establishes popular vote for elections of State Governors and abolition of indirect senators with record quorum of 91% of Congress; 444 Deputies and Senators out of 487.
- 16 Press reports that during meeting of Brazil/FRG Mixed Commission. Brazil sought FRG support so that her exports of pig iron to EC should not be prejudiced by pressure from other EC countries, in particular Italy.
- 19 Ronald James Watters (of British parentage) detained in preventive imprisonment suspected of responsibility for the OAB bomb.
- 24 Foreign Minister Guerreiro announces developing countries now account for 30% Brazil's exports as opposed to 9% 10 years ago.
- 26 Commercial Director of Petrobras announces in Moscow that company may accept Soviet proposal to assist petroleum research in Brazil.



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- 26 General Rubem Carlos Ludwig, ex-spokesman for President Geisel appointed Minister of Education following resignation of Eduardo Portella.
- 30 for 1980. Press announce record annual trade Brazil/East Europe Total trade expected to pass US\$1.350 million with imports from East Europe at \$211 million.

DECEMBER

- 1 Banco Central announces that Brazilian reserves have dropped from US\$9 billion to US\$6.8 billion.
- 6 French Minister of External Commerce visits Brasilia and announces that Brazilians have not used in full credits offered by France. This and delay in some projects financed by France may cause France to modify policy of granting loans to Brazil.
- 13 President Figueiredo expected to visit FRG and Rumania in first half of next year.
- Iraqi Finance Minister visits Brazil thus completing series of high level Iraqi visits to Brazil. Discussions include closer economic cooperation including opening of Brazil/Iraq investment bank.
- 14 During meeting in Rome with Bishops from North Brazil Pope expresses preoccupation with new Aliens Law.
- 15 Ambassador of Morocco Reveals that a group of Islam Ambassadors visited Itamaraty yesterday to discuss installation of PLO office in Brasilia.
- 16 Brazil/Iraq bank expected to be installed in Brazil in first half of next year.
- Banco do Brasil authorised to open 20 agencies in Africa to assist Government strategy of increasing exports to Africa.
- 17 Iraqi Finance Minister says Iraq would like "special" relations with Brazil which could serve as model between developing countries.
- 18 Minister for Social Communications, Said Farhat, resigns. President Figueiredo issues decree abolishing this ministerial appointment and dissolving Secretariat of Social Communications (SECCM). Responsibilities to transfer to Civil Household of Presidency thereby consolidating control of "poder palaciano" over government information services.



- 18 Fidel Castro speaking at II Congress of Communist Party in Havana says that "if Brazil completes her democratic process she could come into disagreement with USA in future owing to contradictions of interests".
- 21 Press reports that from early 1981 Itamaraty will hold series of contacts with industrialised countries to try to make them sensitive to problems of Third World nations in preparation for multilateral economic negotiations next year. especially Mexico summit meeting in June.
- 22 Fundação Getúlio Vargas claim Brazilian economic growth in GNP for 1980 was 8.5%, highest rate since 1976 and average for period 1965-79.

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Foreign and Commonwealth Office

London SW1A 2AH

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REC'D 5 February 1981
- 9 FEB 1981
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LAST
PAPER

W J Hall Esq
BRASILIA

Xear Oden

BRAZIL: ANNUAL REVIEW FOR 1980

1. Thank you very much for your Annual Review which is being printed as a Diplomatic Report. It is an admirably clear summary of an interesting and complex year.

2. The fact that the Armed Forces are still very much in control of the governmental process, and that serious instability is now in prospect is no mean achievement when one reflects on the degree of political liberalisation that has taken place in the last two years and on the potential for social disruption of an inflation rate of 110%. Figueiredo's commitment to the process of abertura is perhaps given too little credit abroad. However, it is only natural that international interest has focussed almost exclusively on economic issues, where the picture is a good deal more worrying. A Brazilian approach to the IMF seems, as you say, increasingly likely. Yet it is open to question whether this will now have the desired effect of reassuring Brazil's private creditors. To some extent, it seems already to have been discounted in advance. The mood of bankers appears to be determined more by the hard facts of Brazil's economic performance, with increasing scepticism over Delphim Netto's grip on events.

3. I agree, however, that politically the year has been a good one for Anglo-Brazilian relations with the Secretary of State's visit raising our profile and reminding Brazilian policy-makers of our interest in conferring with them as equals on international issues. You and your staff have been following up admirably with consultations on subjects of mutual concern. The visit to London this year of the Secretary-General of the Itamaraty should help maintain the momentum. It is, however, disappointing that this coming year our relations will not get a boost from joint naval exercises. The strategic, political and commercial arguments for naval cooperation are well recognised here; but, as you know, the pressure for fuel economies has proved an insuperable obstacle to deploying a Royal Naval force to Brazilian waters.

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4. Unhappily, our exports have not fared so well - provisional figures show the total for 1980 as £128 m, £68 m down on 1979. In view of Brazil's economic difficulties and the continuing restraints on imports, it is clear that the task of improving this performance in 1981 will not be easy, despite our strong position in some fields to which you draw attention.

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15. ...

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5. Finally, 1980 was of course a sad one for us through George Hall's untimely death. We are all conscious of the very great contribution which he made to Anglo-Brazilian relations.

Yours ever
Robert

P R Fearn
South America Department

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DESPATCH FOR URGENT ATTENTION

pa ny

- Section Clerk (for para 1)
- Desk Officer (for paras 2, 3, 4 and 5)
- Assistant Head of Department *RHSmith 2/2*
- Head of Department *[Signature]*

TITLE OF DESPATCH. BRAZIL: ANNUAL REVIEW FOR 1980

1. I attach a copy of despatch from *HM Chargé d'Affaires Brasilia*
dated *22 January 1980* received here on *27 January 1981*

2. Advance copies ~~are being~~ ^{have been} sent to:

PS/POS

Mr. Harding *oh*

3. Comments

I recommend Mr. Ure and Mr. Ridley should see this
advance copy and attach a submission.

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

5. I submit a draft letter of acknowledgment.

[Signature]
.....
(Desk Officer)

DESPATCH FOR URGENT ACTION

Section Clerk (for para 1)
Desk Officer (for paras 2, 3 and 4)
Assistant Head of Department

TITLE OF DESPATCH... THE BRAZILIAN ECONOMY ANOTHER DIFFICULT YEAR AHEAD

1. I attach a copy of despatch from HM Charge d' Affaires Brasilia
dated 5 Feb 81

2. I recommend it should :

(a) be reproduced as a Departmental Series Report and
attach form LR 22 for your signature together
with a distribution list;

~~(b) be printed as a Diplomatic Report and attach
form LR 20 for your signature;~~

~~(c) not be distributed~~

~~(delete paras not applicable)~~

3. Advance copies of the despatch ^{have} should ~~go to~~:

ESID

ERD

Cabinet Office

Mr. Harding

4. The following corrections should be made:

Corrections add to Text

M Jenkins
.....
(Desk Officer)

Mr. Smith
Mea Culpa! Have
already signed,
through oversight.

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4/2/1
①

Mr Ure

PS/Mr Ridley

Shake you.

Minister

DLB 014/a. KR

RECEIVED

- 9 FEB 1981

1) Diff. 10. 10000

2) Mr Smith

Mr Jenkins

cc: (with copy of review)
PS/PUS
Mr Day

BRAZIL; ANNUAL REVIEW FOR 1980

1. I submit the Charge d'Affaires Annual Review for 1980, together with my draft letter of acknowledgement. The despatch is being printed as a Diplomatic Report.

2. Mr Hall strikes a sound balance in his analysis of the year. Politically, things have gone well enough for the Brazilian Government. They have maintained the momentum of abertura without jeopardising stability. Their opponents in Congress have been divided; and opposition from the trade unions, the Church, and the right wing of the Armed Forces has been contained. In foreign affairs, too, the government can look back on some successes: the rapprochement with Argentina and active diplomacy in Africa and the Middle East should bring significant commercial benefits.

3. It is in the economic sphere that things have gone badly. The problems are of course enormous. Paying for imported oil and servicing a foreign debt now estimated variously at between \$ 55 billion and \$ 58 billion account for some three-quarters of export earnings, and still leave some \$ 12 billion to be found for vital non-oil imports. Years of loose control over the spending of state enterprises, of price controls, and of subsidies have built up inflationary pressures. Delphim Netto, whose future now looks precarious, can be criticised for a stubborn refusal to recognise until the end of the year that a limited recession could not be avoided, and for failing to win the confidence of the foreign creditors on whom Brazil is so dependent. An approach to the IMF, though emotionally against the grain, seems likely in 1981.

4. The formidable scale of Brazil's indebtedness and its unsatisfactory economic performance have inevitably raised the spectre of possible default. Such fears would not at present seem justified; and, given some stability in oil prices, Brazil's difficulties may be short term. Mr Hall is right in saying that Brazil deserves sympathy. But, if her economic difficulties force her into harsher policies of constraint, the process of political liberalisation could be a casualty.

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5. Anglo-Brazilian relations were given welcome impetus by a successful visit by the Secretary of State at the end of July. This has been carried forward by the development of consultations on international issues with the Itamaraty, whose Secretary-General has been invited to the UK this year. A sadder note was the death of the Ambassador on 1 November - perhaps surprisingly, this is not mentioned either in the despatch or in the otherwise very full calendar of events. Trade (and the despatch also omits reference to Mr Nott's visit last year) remained however our overriding interest, and here the year was disappointing. Exports of £218 million (provisional) were £68 million down on 1979.

6. Mr Hall's despatch is clear and concise. Mr Ridley may like to see this advance copy.

P R Fearn
South America Department

3 February 1981

I agree that this is a business-like review of the year, but it would have been pleasing to have seen some recognition of the very considerable efforts already made by the late Mr George Hall to capitalise on the enormous commercial potential of Brazil for UK exports.

J B Ure

3 February 1981

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