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SUBJECT : The Free Port of Manaus - A Limited But Growing Market for U.S. Products

REF :

FOR COMMERCE

Summary

Programs of the Federal Government of Brazil to integrate the economy of the nation and to stimulate the development of the lagging areas are awakening Manaus out of its half century of doldrums and providing a limited but growing market for U.S. products. The SUDAM (Superintendency for the Development of the Amazon) and the SUFRAMA (Superintendency for the Free Zone of Manaus) offer significant incentives for investment in the remote area of Manaus and permit the import of most foreign products free of duty and of Brazilian manufactured goods with exemption from taxes paid by residents of the rest of Brazil. The construction of the Transamazon Highway and the connecting roads to Manaus will provide the stimulus of land connections to the rest of Brazil for an area which now can be reached only by air or water. The State of Florida was the first to recognize the growing market possibilities of the Manaus area and held a successful trade mission there in late January 1972.

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Manaus, the capital of the State of Amazonas, is benefitting from three programs of the Federal Government of Brazil: SUDAM, SUFRAMA and the Transamazonian Highway.

SUDAM: SUDAM (Superintendencia do Desenvolvimento da Amazonia - Superintendency for the Development of the Amazon) was created by Law No. 5,173 of October 27, 1966 (replacing a predecessor organization SPVEA) and provided incentives for investment in the area entitled Amazonia Legal (Legal Amazon) which consists of the States of Pará, Amazonas, Acre, Maranhao, northern Goiás and northern Mato Grosso and the Territories of Rondonia, Roraima and Amapá. Brazilian enterprises wishing to invest in the SUDAM area may deduct up to 25% or 50% of their income tax for investment in approved projects considered important for the development of the area. Up to two-thirds of the investment in a SUDAM project may come from income tax deductions; the remaining third may be made up of private resources of the investor, the value of machinery and equipment and the value of the land. Enterprises established under the above provisions, may be exempted from income tax and from import duty on imported machinery and equipment which is not similar to any machinery or equipment manufactured in Brazil (See Recife Report No. 17, July 14, 1971, pouched to Commerce). During the period 1964-1970, 428 projects were approved with a total value of CR 3,783 million (at the end of 1971 CR 5.60 equaled US\$ 1.00) divided between agriculture and livestock raising CR 1,633 million, industry CR 1,622 million, services CR 528 million. Of the foregoing, CR 626 million was in the State of Amazonas, with CR 22 million in agriculture and cattle raising, CR 489 million in industry and CR 116 million in services. Most of these projects, particularly industrial and service projects, were approved for establishment in or near Manaus.

SUFRAMA: SUFRAMA (Superintendencia da Zona Franca de Manaus - Superintendency for the Free Zone of Manaus) was established by Decree Law No. 288 of February 28, 1967 and regulated by Decree No. 61,244 of August 28, 1967. Decree-Law No. 288 permits the importation in the Free Zone of Manaus of foreign merchandise free of duty for consumption or industrialization, with the following exceptions: arms and ammunition, perfumes,

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tobacco, alcoholic beverages and passenger automobiles. The executive organization, SUFRAMA, is authorized to extend the above list. Subsequent decrees in 1967 and 1968 amended the original provisions somewhat and permitted the following products to be imported duty free into Western Amazon (The States of Amazonas and Acre and the Territories of Rondonia and Roraima): a) inboard and outboard motors, parts and accessories, b) machinery and implements for agriculture, road construction, industry and fishing, plus parts, c) basic construction materials, d) food and medicine. Products manufactured in Brazil and shipped to the Free Zone are entitled to all the fiscal benefits provided for export manufactures (See Rio A-442, December 8, 1971).

Products produced and consumed within the Free Zone or produced in the Free Zone and further processed elsewhere in Brazil are exempt from the IPI (Imposto Sobre Produtos Industrializados - Industrial Products Tax); duty and other taxes are paid on the import component, if any, of such products. Other tax incentives for industries in the Free Zone are: exemption of up to 100% of the income tax on the Free Zone enterprise, utilization for capital of the Free Zone firm of up to 50% of the income tax paid by enterprises elsewhere in Brazil, refund of the ICM (Imposto Sobre Circulacao de Mercadorias - Sales Tax) for a period of five to ten years to companies of over a specified capitalization, exemption from the Imposto Sobre Servicos (Service Tax) and assistance with the financing of research, of the development of an industrial project and of the investment itself. If the product is exported, the company will receive the fiscal benefits outlined in Rio de Janeiro A-442, December 8, 1971. (Further details concerning the incentives are available from the main office of SUFRAMA, Av. Eduardo Ribeiro 898, Manaus, Amazonia, Brazil, or from its branch office in Rio de Janeiro, Av. Rio Branco 257, Salas 1,410/4, Rio de Janeiro, State of Guanabard, Brazil.)

The principal types of manufacturing enterprises which have been established in the Free Zone under the above incentives are for the production of jewelry, ships, chemical products, wigs, optical items, textiles, watches, domestic electric appliances, construction material, wood, stone cutting, soft drinks, mining metal products, electrical material, and the distribution of electricity. The investment

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involved varies from CR 12 thousand to CR 75 million, with 28 in operation or authorized with an investment of over CR 1 million. SUFRAMA has approved 52 new projects with an investment of CR 294 million, has approved the expansion of 8 existant projects with an investment of CR 99 million and has 35 more projects under various stages of consideration.

An Industrial Zone is being constructed three miles from Manaus, near the projected new international airport; over CR 7 million has been invested in this project and reportedly over 50% of the 79 industrial lots have been spoken for. All lots are to have electric power, water, sewage and paved streets. In the Industrial Zone, there is to be an International Area of 100 acres where imported products may be stored without payment of duty or import fees.

Transamazon Highway: The Brazilian Government is building some 8,000 miles of highway in the Amazon area, much of it through virgin and uncharted tropical forest and crossing major waterways. The principal stretch of this highway, called the Transamazon Highway, is almost 4,000 miles long and will link Recife in the North East with Peru on the westernmost side of Brazil. (See TOAID A-1002 of October 27, 1970; TOAID A-222 of April 2, 1971 and A-6 of April 1, 1971.) This highway runs some 500 miles south of Manaus. Another road is under construction south from Manaus which will cross the Transamazon Highway and join existant roads leading to Brasilia, Rio de Janeiro, Sao Paulo and points south. The Transamazon and the connection to Manaus are scheduled to be completed in 1973. Another road north from Manaus leads to Southern Venezuela and Southern Guyana. Construction activities connected with these roads already are having a favorable economic impact on Manaus. When completed, they will liberate Manaus from its present complete dependence on maritime and air connections, and stimulate the economy. Belem, at the mouth of the Amazon, recently became connected by road to Southern Brazil for the first time; there is now considerable truck traffic and some tourist automobiles connecting Belem and points south.

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Economic Impact on Manaus: Manaus, during the heyday of Brazilian rubber production in the early part of this century, was a leading city of Brazil and the second city in Brazil to have electricity. In 1915/16, with the production of rubber in Malaysia, Manaus' primary reason for existence vanished and economic stagnation followed for the next half century. The SUDAM and SUFRAMA programs already are having a favorable effect on the economy of Manaus; see Belem A-2 of January 4, 1968 (forwarded by Rio A-593 of March 6, 1968) and Belem A-19 of June 14, 1971. Average family income increased by 64%, in real terms, from May 1966 to April 1968. Civil construction increased from 52,022 m² in 1967 to 108,096 m² in 1968 to 240,000 m² in the first half of 1971. Electric power/consumption increased at an annual rate of over 20% from 62,487,310 kwh in 1967 to 54,745,899 kwh during the first half of 1971. The present electric plant can meet the demand until the end of 1972. By 1973 a second plant is to be in operation with an initial capacity of 40,000 kw and an expansion capacity of up to 200,000 kw. Cement import has increased from 218,000 sacks in 1967 to 2,321,487 sacks in 1971. The value of checks cleared through the Bank of Brazil branch in Manaus increased from CR 672 million in 1967 to CR 1,607 million in 1969.

The importation of goods, from Brazilian and from foreign sources, into Manaus is as follows:

	Brazilian	Imports Foreign (in CR 1,000)	Total
1967	60,565	23,258	83,823
1968	121,443	133,590	255,033
1969	213,984	111,207	325,191
1970	418,036	236,548	654,584
1971	578,179	326,787	904,966

The principal foreign products imported in the fourth quarter of 1971 were: machines, mechanical instruments and electrical equipment 25%; instruments, optical and sound equipment and

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watches 17%; textiles 16%; minerals 9%; vehicles and transportation equipment 8%. The principal products imported from Brazil were: industrialized food products 16%; transport material 15%; vegetable products 4%; electrical machines, apparatus and material 13%; common metals and manufacturers thereof 11%; products of the chemical and related industries 9%; textiles 8%. The foreign products were imported from the U.S.A. 23%; Panama 17%; Japan 13%; West Germany 6%; Belgium 6%; England 6%; and others 28%. In terms of country of origin, Japan probably was larger than the 13% indicated, probably including a substantial part of the products imported from Panama and perhaps some of those from the U.S.A. Japanese electrical products (radios, tape recorders, record players, television sets) are almost the only foreign products seen in Manaus stores in these lines.

There is an import charge of 2% on all imported foreign goods and of 0.1% on all imported goods of Brazilian origin. There is a port charge of 20% of freight rates for goods arriving by ship.

Implications for U.S. exporters: The population of Manaus is considered to be over 300,000. A significant part of the population is made up of Federal and State Government officials administering substantial programs for the construction of roads and buildings. They have resources and authority to make substantial purchases. Skilled labor is scarce, although factory managers report success in training local labor. In 1966 it was reported that 27% of the potentially active population was unemployed. The proportion is probably lower now, despite the influx of manpower from surrounding areas. SUFRAMA maintains that 16,000 new jobs have been created in Manaus since 1961. The cost of living is high, particularly rent, both for the laboring class and for executive levels and tourists. Duty free imports have not as yet had the hoped for effect of reducing significantly the cost of living, reportedly because most importers expect a mark-up of 100% on their merchandise.

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Hotels are insufficient to meet the demand and service sometimes is unsatisfactory. A confirmed reservation does not necessarily mean that one will receive the accommodations indicated. There are projects for new hotels; when constructed they should help meet the demand. There is considerable travel to Manaus for business and construction purposes; also Brazilians come to Manaus to make Free Zone purchases, despite the \$100.00 limitation on the value of imported goods which may be taken to the rest of Brazil, plus \$25.00 for foodstuffs. Americans and other foreign tourists are lured to Manaus by its history. The warmest period in Manaus is September to October; the coolest and the rainiest days are from January to March.

The U.S. has a natural commercial advantage in Manaus due to its proximity to Manaus, in comparison to Japanese and European sources, and to the frequent shipping and air connections between Manaus and Miami, enabling prompt delivery from the United States. Manaus provides a market for a limited amount of a wide variety of products. Since there is a shortage of skilled labor, there is probably a fair market for prefabricated buildings suitably insulated against the heat and protected against termites and other insects. U.S. products have a good reputation and the U.S. is close for spare parts, but United States suppliers, along with those from other countries, are criticized for not having a sufficient stock and variety of spare parts. A French make of automobile reportedly is gaining a strong following because it is the only make for which one can be sure of obtaining spare parts. American outboard motors are considered to be of top quality, but spare parts are difficult to obtain. A Japanese company is reportedly planning to assemble outboard motors in Manaus and to have a completely adequate supply of spare parts and thus to make strong inroads into the market enjoyed by U.S. suppliers.

The nearest U.S. consular office to Manaus is in Belem, 1,000 miles east at the mouth of the Amazon. There is a U.S. consular agent, Marshall Whitlock, in Manaus who could help

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American businessmen in an emergency. The Commercial Association of Amazonas states that it assists foreign companies looking for representatives or agents in Manaus. The address is Associação Comercial do Amazonas, Guilherme Moreira 281, Caixa Postal (Post Office Box) 191, Manaus, Amazonas, Brazil. The President is Mario Expedito Neves Guerreiro and the Executive Secretary is Francisco José Cunha. Import arrangements are normally taken care of by the Brazilian purchaser. Should an exporter wish to import a product into Manaus, as for example, for demonstration, he probably will need the services of a customs agent. A list of customs agents in Manaus is available from the Sindicato dos Despachantes Aduaneiros de Manaus, Avenida 7 de Setembro No. 740, Rooms Nos. 706, 707, 708, 709 and 710, Caixa Postal (Post Office Box) 338, Manaus, Amazonas, Brazil. Americans needing interpreters may appeal to the Brazil-United States Cultural Institute: Instituto Cultural Brasil-Estados Unidos, Avenida Joaquim Nabuco, 1286, Caixa Postal (Post Office Box) 61, Manaus, Amazonas, Brasil. The Cultural Institute can assist in obtaining a limited number of interpreters.

State of Florida Trade Mission to Manaus: The first coordinated effort from the United States to establish a foothold in the limited but growing market of Manaus was organized by the Department of Commerce of the State of Florida and led by Mr. Richard F. Lankenau. The mission consisted of ten exhibitors, some new to export, and took place in late January, 1972. Detailed results of the mission are not available, but preliminary reports indicate that members of the mission made immediate sales of \$90,000 and expect additional sales of \$505,000 during the balance of 1972. Since this was the first organized trade mission to Manaus, there was some difference of opinion among Brazilian authorities in Manaus as to the proper procedure to follow in order to import the samples and displays without payment of fees, unless they were sold. With the cooperation of the Brazilian authorities and the American Consulate General in Rio, the display was imported in time for

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the opening reception, although not completely set up. In an effort to ascertain the best procedure to be followed for subsequent trade missions to Manaus, the advice of the Brazilian Customs Office in Manaus was solicited. The recommendation was as follows:

1) The U.S. diplomatic representation in Brazil, in the name of the U.S. Government and the sponsoring organization, should request from the Director do Departamento Nacional de Registro de Comércio of the Ministry of Industry and Commerce authorization to hold the exhibition, giving the dates it will take place and listing the names of the exhibitors with specifications of the materials to be imported; in addition, when appropriate, the Ministry of Industry and Commerce requires that a floor plan of the exhibition site be provided together with adequate proof to the effect that the use of the exhibition site has been lawfully granted.

2) A petition must be filed with the Coordenação do Sistema de Tributação of the Ministry of Finance (Brasilia) requesting them to advise the Delegacia da Receita Federal in Manaus concerning the authorization given for the exhibition and the necessary documents for the release of the shipment should be sent to Manaus.

3) The U.S. Embassy should prepare a letter to the Delegacia da Receita Federal in Manaus indicating the name of the person who will be authorized to receive custody of the shipment.

4) A written request should be filed with the Foreign Trade Department of the Bank of Brazil (CACEX) asking them to instruct their Manaus office on how to handle the liquidation of any sales of exhibition materials.

5) Once the above steps are completed the authorized persons should go to the Delegacia da Receita Federal in Manaus and request the release of the shipment.

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Note: In all petitions and requests for authorization it should be clearly stated that the products are being imported for display only and that they will not be sold without previous authorization from the CACEX.

In order to allow for ample time to obtain the various authorizations which are needed the initial request to the Ministry of Industry and Commerce should be filed approximately 3 months in advance of the planned date for the exhibition. Information related to exhibitors, products, site and floor plan can be submitted subsequently but the need for an early authorization from the Ministry of Industry and Commerce is evidenced by the fact that all other GOB agencies which are involved in an exhibition will commence acting only upon receiving advice from the Ministry of Industry and Commerce to the effect that authorization for holding a given exhibition has been granted. Some of the Brazilian agencies and ministries involved are now in Rio de Janeiro and others have moved to Brasilia, complicating the process for obtaining the necessary authorizations.

In the case of the State of Florida mission, it was possible to arrange for the exhibition without complying with all the foregoing regulations due to the cooperation of Brazilian officials who were aware that they would have to take short cuts if the mission were to take place.

A mission traveling with catalogues and literature, but no merchandise, should experience no difficulty in entering Manaus. Likewise, there should be little difficulty with a mission including merchandise to be left in Manaus, if the merchandise was consigned to a resident of Manaus and the relatively modest import fees were paid.

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