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ANALYSIS BRANCH
JUL 18 1967

TO : Department of State

INFO : BELO HORIZONTE, SÃO PAULO

FROM : Amembassy RIO DE JANEIRO DATE: July 17, 1967

SUBJECT : FOREIGN TRADE: Minister of Industry and Commerce Recognizes that Brazil Must Import Manufactures in order to Export Primary Produc

REF : CERP D

Brazil

1. Addressing industry and trade groups in Belo Horizonte last week, General Edmundo de Macedo Soares e Silva, Minister of Industry and Commerce proposed self-limitation of Brazil's industrialization in order to preserve the country's capacity to import and to provide leverage for negotiation of primary exports under bilateral trade agreements. He recommended restriction of industrial production to goods for which there exists an internal market and conditions for export, particularly to the LAFTA area. On the basis of his thesis that the country must import manufactures in order to export its primary products, the General proposed certain guidelines for development of the industrial policy which the country still lacks. His tenets, as reported by the press, are as follows:

a) We must not stimulate the creation of capacity in excess of market requirements, considering particularly the LAFTA market to the extent that forecasts are possible, because scarce resources must not be wasted in the creation of idle capacity;

b) in those cases where the domestic market does not permit installation of units of economic dimensions we must not, in order to avoid a monopolistic situation, stimulate the installation of small, uneconomic units, as was done in the automobile industry;

c) existing industries must not renounce adequate tariffs, such as are maintained even in highly industrialized countries in relation to base industries and key industries; existing industries need a certain amount of time to streamline their methods and increase their productivity to the point where they can operate under a

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normal tariff level; to this end it is necessary that costs of external production factors, such as electric power, transport and petroleum products, be compatible with similar costs in the more advanced countries which serve as a pattern; in addition, social welfare and tax expenses are high in Brazil and need to be revised; once this situation is corrected our industries such as textiles, cement, steel, ceramics, and paper will be normal (i.e., will not need high tariff protection); in international negotiations care must be taken to avoid low tariffs on products not manufactured in Brazil at present, to prevent obstacles to future production; in these cases it is better not to negotiate any tariff until the case has been submitted to the Industrial Development Commission (of the Ministry of Industry and Commerce), an agency capable of judging whether or not we should bind our position concerning the installation of industrial units in Brazil;

d) the war against inflation necessitates that we maintain internal price controls in order to avoid abuses and distortions in supplying the public.

2. The General also commented on the influence of the external market on Brazil's industrial development, noting that exports of manufactures had risen from US$40 million in 1964 to US$110 million in 1966 and that the upward trend had continued during the first quarter of 1967, although the average price declined from the 1966 level of US$385 per ton to US$261.13 a ton.

3. Comment: There appears to be some inconsistency between the Minister's recommendation that installation of small, uneconomic industrial units must be restrained and his admonition that care must be taken to avoid negotiating low tariffs on products not yet made in Brazil. Protective tariffs could stimulate installation of small units to manufacture new products. His main argument, however, that Brazil cannot justify installation of new industries whose products can be imported at prices below local production costs demonstrates the need for formulation of an industrial development policy conditioned to the interests of the Government.

4. Evidence of the difficulties encountered in promoting exports of Brazil's primary products is shown by the substantial credit balances in inconvertible currencies which it has accumulated in its transactions with the 13 countries with which it maintains bilateral trade agreements (Bulgaria, Czechoslovakia, Denmark, Eastern Germany, Hungary, Iceland, Israel, Mainland China, Poland, Rumania, the U.S.S.R., and Yugoslavia). Most of these are exporters of primary products and manufactures for which Brazil has little or no need. As of the end of May, 1967 Brazil's over-all net credit balance on bilateral accounts amounted to US$56 million. This, however, represents a considerable improvement over its bilateral credit position of US$77 million at the end of October 1966.

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