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HANDLING INDICATOR

TO : Department of State

INFO : Belém, Belo Horizonte, Brasília, Curitiba, Porto Alegre,
Recife, Salvador, São Paulo

FROM : Amembassy RIO DE JANEIRO

DATE: February 17, 1967

SUBJECT : "Operation Amazon" Laws

REF : A-719, Jan. 27, 1967; A-754, Feb. 9, 1967; CERP D

1. The gigantic task of developing the Amazon Valley through the "Operation Amazon" program initiated by the Castello Branco Government will be enthusiastically carried on by the Costa e Silva Administration, according to the President-elect. Based on the success of the federal program to develop the Northeast through incentives to private industry, "Operation Amazon" constitutes a similar program for the Amazon area, comprising the states of Amazonas, Pará and Acre; the Federal territories of Amapá, Roraima and Rondonia; the northern parts of the states of Goiás and Mato Grosso, and the western part of the state of Maranhão. The foundation for the program for incorporating the region into the economic life of the rest of the country is contained in a substantial body of legislation. Transmitted herewith are translations of four of the principal laws, listed below:

- a) Law No. 5122, September 28, 1966 (Diário Oficial September 29) Reorganizes the Banco de Crédito da Amazonia into a regional development bank and renames it Banco da Amazonia S.A. (BASA)
- b) Law No. 5173, October 27, 1966 (D.O. October 31) Creates the Superintendency for Development of the Amazon (SUDAM), a central planning and coordinating body, organized along the lines of SUDENE (Superintendency for Development of the Northeast).

Enclosures:

Translations of laws, in quintuplicate

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- c) Law No. 5174, October 27, 1966 (D.O. October 31)
Provides fiscal incentives for investment in the Amazon region.
- d) Decree No. 59,455, November 4, 1966 (D.O. November 4)
Creates an Executive Group to regulate "Operation Amazon" legislation and coordinate federal activity in the area.

A fifth important law, No. 5,227 of January 18, 1967, establishing a new national rubber policy, is summarized in A-754.

2. Activities of the restructured Banco da Amazonia S.A. (formerly limited to a monopoly in the purchase, sale and fixing of prices for natural rubber) are expanded by Law No. 5122 to enable it to function as the investment and development bank for the region, and as the financial agent for SUDAM. During the five fiscal years starting January 1, 1967 the bank is to receive an annual federal allotment of Cr\$20 billion for special credits to private enterprise in the region. An additional federal deposit of Cr\$20 billion is earmarked as a special fund for creating and maintaining a stockpile of natural rubber (see A-754). The "new look" of the bank is indicated by full-page ads it is placing in national magazines, stressing the advantages of investment in the Amazon area.

3. The bank will also administer SUDAM's Fund for Private Investments in the Amazon (FIDAM). Resources for the Fund will be obtained from bonds issued by the bank, federal tax revenue (at least 1 percent of total annual revenue), income tax discounts for investment in the area, and the fund's own operations. FIDAM credits are available to firms investing in or conducting surveys directed to utilization of the natural and agricultural resources of the area. SUDAM income tax discount incentives and priorities for investment by private enterprise in the Amazon Valley are reported in A-719. The agency is to receive 2 percent of total annual tax receipts for infrastructure and other basic investment, in which it expects to apply over four trillion cruzeiros in the next five years.

4. The Executive Group appointed to draft regulations for the new laws is headed by the Special Minister for the Coordination of Regional Organs, Minister João Gonçalves de Souza, and includes representatives of the Ministries of Finance and Planning, of the President's Military Cabinet, the Superintendent of SUDAM and the President of the Banco da Amazonia S.A. The group will also make recommendations to promote foreign financial and technical assistance and the participation of private industry in the development of the region. It is scheduled to complete these tasks and report to SUDAM by March 15, 1967.

5. As a first step toward obtaining the cooperation of nations bordering the Amazon in planning the development of the area, Brazilian Ambassadors to Colombia, Ecuador, Peru and Bolivia met with Brazilian federal and state government representatives in Manaus on January 11 and 12, 1967. Foreign Minister Juracy Magalhães presided over the meeting, which had for its purpose the exchange and synchronization of views on Brazilian relations with

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its Amazon Basin neighbors, and intensification of those relations. A proposed second step is a conference of foreign ministers of countries bordering the Amazon Basin, to study ways of increasing productivity in the region.

6. At the launching of "Operation Amazon" in September 1966, it was announced that Planning Minister Roberto Campos would propose the creation of a national system of regional planning. The proposal envisaged institutionalization of the Ministry of Planning and creation of a Ministry of the Interior, plus the establishment of three additional regional development agencies: SUDEL for the Southeast, SUDESUL for the South, and SUDECO for the Central-West area, to complement SUDAM and SUDENE. The proposal has not yet materialized, probably because of the need to give priority to development planning for the North and Northeast.

7. Comment:In a campaign speech in Manaus last August President-elect Costa e Silva said that the word "integration" summarizes the goals of his government for the Amazon - integration in terms of health, education, transportation, and housing. A beginning would be made, he said, with improvement and expansion of highway and river transportation. Quoting President Kennedy, he declared that the task of developing the Amazon Valley might not be accomplished "in my administration nor in our lifetime, but a beginning will be made."

8. The new impingement of the Amazon Basin on the national consciousness brought forth a number of official statements to the effect that "we must populate the region before foreigners do it for us." Awareness that Brazil cannot afford the luxury of maintaining a region of two million square miles in a virtually uninhabited state while rapid advances are being made in cosmic exploration has evoked hopes that steps will be taken to attract Brazilian youth, especially the technically trained, to the Amazon. There is parallel recognition, however, that the elements of the area's geology or topography are not fully known, much less its economic potential.

9. In this connection, SUDAM's "plan of administrative action", designed to gradually reduce the disparities between the region and the rest of Brazil has already been criticized because it would hold the area's annual rate of economic growth between an estimated 8.2 percent in 1967 and 10 percent in 1971, in line with federal anti-inflationary policy. Potential São Paulo investors say that a faster growth rate will be needed to stimulate development undertakings, and that investment in the less-favored western part of the area, remote from the Amazon River, should merit full tax exemption.

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