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# AIRGRAM

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NO. 1964 AUG 6 PM 3 26 HANDLING INDICATOR

TO : DEPARTMENT OF STATE

INFO: RIO DE JANEIRO

RM/AN  
ANALYSIS & DISTRIBUTION  
BRANCH

*Handwritten initials/signature*

FROM : Amconsul SAO PAULO

DATE: August 4, 1964

SUBJECT: Reactions of São Paulo industrialist to current economic issues

DEPARTMENT OF STATE  
BUREAU OF  
INTER-AMERICAN AFFAIRS  
AUG 7 1964

REF : 1964 AUG 7 AM 9 21

Transmitted herewith is a memorandum of conversation with Ermelino MATARAZZO, General Administrator of the Matarazzo Enterprises. It is believed that this may be of interest to the Department since it contains the reactions of a qualified spokesman for one of the largest industrial groups in Brazil on several important problems including the following comments.

1. The National Congress in its current revision of the remittance of profits law "must" produce legislation more acceptable to foreign investors.
2. The present Administration of Brazil has adopted an economic policy which is correct in its objectives but authorities are trying to move too fast. In particular the government should provide more ample credit facilities.
3. There is little prospect of a significant increase in exports of manufactured goods in the near future.

Although UNCLASSIFIED in keeping with security classification regulations, it is requested that the information contained in this airgram be used for internal Government purposes only.

For the Minister Consul General:

*Richard C. Desmond*  
Richard C. Desmond  
Consul

Encl: Memo of Conversation

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FORM 4-62 DS-323

Drafted by: ECON:RCDesmond/id 8/4/64

Contents and Classification Approved by:

Clearances:

*RMR Files  
8/19/64*

## MEMORANDUM OF CONVERSATION

PARTICIPANTS: Ermelino MATARAZZO, General Administrator of  
Matarazzo Enterprises  
Richard C. Desmond, American Consulate General,  
São Paulo

SUBJECT: Reactions of São Paulo industrialist to current economic  
issues

PLACE: Office of E. Matarazzo      DATE: July 31, 1964

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Mr. Matarazzo remarked that the present slowness of activity in some industrial fields was an inevitable consequence of the efforts of the present government to restore some order to the previous government's chaotic financial operations and to correct rampant inflation. He said it was his guess that current problems would persist to some degree for at least six months. With respect to the textile industry, particularly important because of the large number of workers employed, he said the problem was essentially one of reduction of inventories by distributors. Previously, all dealers had tried to maintain inventories at the highest possible level. Following the revolution this policy on the part of dealers had been reversed so that manufacturers were now being forced to carry the inventories. Since retail sales had not fallen appreciably, the difficulty would be overcome in time and there were signs that this was already taking place. He believed that there had been some reduction of production and employment of smaller textile companies but not by larger enterprises.

Mr. Matarazzo was not optimistic concerning the future of Brazilian exports of manufactured goods. He said the potential demand within Brazil was so great that it would probably absorb most of the growth in production that might take place. There might be, he said, some exceptions to this rule, as in the automotive industry, but so far as the industries within the Matarazzo group are concerned, he saw little prospects for increased exports. This, he remarked, was not really a negative factor since one reason why investors may be expected to turn to Brazil is the likelihood of a strong domestic market.

Mr. Matarazzo expressed a strong opinion that the remittance of profits law should and must be revised to make it acceptable

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from São Paulo

to foreign investors. He said that if Brazil is to continue to progress in industrial development, the preoccupation with domestic capital vs. foreign capital must be overcome. In reality, he said, this is a false distinction and what is needed is simply capital, whether national or international.

He believed that the government's current housing program is a desirable measure. He thought, however, that the government might be attempting to move too fast. For example, the Matarazzo group includes cement factories and a tile factory. None of these enterprises experiences difficulty in marketing its products. If the housing program stimulates substantial increases in demand for building materials, shortages of goods may well develop with consequent sharp increases in prices. This situation might be aggravated if industrial investment in Brazil resumed the tempo of several years ago.

He believed the government had made mistakes in its coffee policy which had resulted in a decline in prices. He said, however, that he did not favor reduction of the coffee export exchange retentions. This would of course be favorable for coffee producers. While he was sympathetic to producers, he believed such a measure would inevitably depress coffee prices as well as reduce badly needed government revenue. Rather, the coffee export trade should be strengthened by increased credit facilities.

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