

DEPT. DISTRIBUTION
ORIGIN/ACTION

2

DEPARTMENT OF STATE

AIRGRAM

UNCLASSIFIED

Original to be Filed in _____ Decentralized Files.

FILE DESIGNATION

Com. 10

AM/R	REP	AP	ARA
EUR	FE	NEA	CU
INR	E	P	IO
L	PEO	AID	5/10
			5/10
AGR	COM	FRB	INT
LAS	TAR	TR	AMB
AIR	ARMY	NAVY	OSD
USIA	NSA	CIA	
DOV		OP	12
12			

HANDLING INDICATOR
LIMITED OFFICIAL USE
DEPARTMENT OF STATE

TO : SECSTATE WASHDC
INFO : BRASILIA, RIO DE JANEIRO, PORTO ALEGRE
DOCUMENT ANALYSIS

SEP 13 3 06 PM 1974

FROM : Amconsul SAO PAULO
E. O. 11652: N/A
SUBJECT : First Brazilian National Automobile Industry Congress: Government and Industry Leaders Develop a Strategy to Help Deal with Brasil's Related Petroleum and Balance of Payments Problems
REF : CERP 5711
TAGS : ECON, EINV, ELTN, ENRG, BR

DATE: September 10, 1974

SUGGESTED DISTRIBUTION

*OMB-1 Clap
FETA-4 CCA
3*

PASS TO COMMERCE

SUMMARY

The National Congress of the Automobile Industry, held in São Paulo September 2-5, 1974, provided a public forum in which top GOB policy makers somewhat bluntly outlined the "new realities" of Brasil's economic situation and the expected role of the auto industry in meeting problems brought about largely by the related petroleum and balance of payments crises. Although initially thrown off balance by the unexpected and at times highly critical tone used by the invited officials, the industry--both terminal and parts manufacturers--joined ranks in an unusual display of solidarity to defend their industry's vital role in Brasil's economic development, past and future. The entire automotive industry also wanted to assure the GOB that the industry was aware of the problems facing Brasil and that it was prepared to cooperate constructively with the GOB in resolving them. The vigorous response of the industry resulted in a final communique of the Congress summarizing the industry's points of views, specifically the need for an annual growth rate of 15% to 20%. The industry also countered a number of the GOB criticisms but accepted the Government's general policy lines and considerations. The communique was subsequently endorsed by Planning Minister Velloso in an exclusive interview given to the O Estado, thus ending the Congress on a harmonious note. END SUMMARY.

POST ROUTING

TO:	Action	Info.	Initials
AMB/PO			
DCM			
POL			
ECON			
CONS			
ADM			
AID			
USIS			
FILE			

Action Taken:

Date:

Initials:

FORM 10-64 DS-323

LIMITED OFFICIAL USE

For Department Use Only

Drafted by: CG:FLChapin/COMM:RBCS/ran/leig 9/9/74 212
Drafting Date: Phone No.:
Contents and Classification Approved by: CG:FLChapin/le

Clearances:

DECLASSIFIED

Authority *NND 37239*

Best Available Copy

LIMITED OFFICIAL USE

2

BEGIN TEXT: According to reliable industry sources, the automobile assembly and automobile parts industries, acting in precedent setting accord in Brasil, decided to convoke the first National Congress of the Automobile Industry in São Paulo, September 2-5, in order to achieve the direct access to the top leadership of the Brazilian Government which they believed they had been denied under the new government and to present their case in the light of the revised economic circumstances facing Brasil. Having taken the initiative, industry leaders were surprised and initially shocked by the coordinated, innovative, and critical tone of the major speeches by the invited Government spokesmen. Industry leaders were at first caught on variance. Many of them did not attend the opening sessions and several international company leaders were out of the country. The initial press reports, at least in the São Paulo press, reflected this disarray in the industry, and the efforts to counteract what was considered a Government offensive against the car manufacturers, as distinguished from the bus, truck, and tractor manufacturers. The reaction of the São Paulo automobile moguls was all the more intense because they tended to perceive the speeches as the product of the splendid isolation of Brasilia technocrats who were out of touch with the realities of the hurly-burly of the marketplace or, for that matter, the exigencies of corporate management and financing.

Minister of Planning Reis Velloso, according to published accounts, opened the Congress with a relatively short speech in which he rather bluntly pointed out that the world had changed and that the auto industry had to adapt itself to the new conditions. There was to be no adverse effect on employment in this adaptation, but a slower growth rate was desirable. The industry's export program, i. e., US\$300 million per year through 1980, would have to be fulfilled, and lower production costs through greater economies of scale would have to be achieved. Minister Reis Velloso also stated that the automobile parts industry must achieve greater integration and economies of scale. He specifically rejected quote irrational unquote controls, and indicated that an adequate return on investment to companies involved must be assured. Reis Velloso added that prices should be maintained at levels which would give lower income groups access to cars, which is, of course, at least in part contrary to the notion of curtailing production.

The Minister was immediately followed by Brazilian Development Bank (BNDE) President Marcos Pereira Vianna, who provided a further exegesis on these same themes in a long speech, first published in its entirety in the O Estado on September 8. The full text, taken as a whole, is much more sober and moderate than the initial press excerpts, apparently inspired by the automobile industry. Vianna gave a historical review of the automobile industry in Brasil, and gave the industry full credit for its role as the cutting edge in the growth of the Brazilian economy. He noted that from a small participation of 2.8% of Brasil's manufacturing product, the industry had grown to 20% in 1973. Moreover, in the domestic national product, the share had grown from 1.4% in 1957 to 5% in 1973,

LIMITED OFFICIAL USE

DECLASSIFIED

Authority

NND 37239

Post Available Copy

LIMITED OFFICIAL USE

3

not counting the value of the production of component and automobile parts manufacturers, which would greatly increase the total. Vianna also stated that the average annual growth of the automobile industry from 1956 through 1973 was 14.12% and he said elsewhere that his understanding of the second National Five Year Development Plan was that it would permit an annual rate of growth during 1975-79 which was greater than the average growth of the industry between 1957 and 1973. Vianna also pointed out that within the auto parts sector, which consisted of more than 300 different firms, only 30, or 10%, accounted for 2/3 of total sales. Of the top 20 firms, 14 were foreign, thus leaving very little to wholly-owned Brazilian companies. In addition, he indicated that a number of Brazilian firms in the sector which in previous years had received BNDE loans had since accepted majority participation by non-Brazilian companies. He added that in an industry so horizontally inclusive as that of the auto parts manufacturers, some part of it should remain exclusively Brazilian in order to avoid an over-dependence on foreign capital.

The initial industry outrage did not stem from these measured comments, but rather from Vianna's repeated emphasis on the Brazilian Government's initial automobile policy which foresaw a production of 80,000 trucks, 25,000 jeeps, 25,000 utility vehicles including buses, and only 40,000 passenger cars. He called for a return toward this objective, as a result of international petroleum crisis, and in addition called for the development of smaller, more efficient or less fuel-consuming, passenger cars. His quote obvious corollary that no type of incentive whatsoever should be given to the installation of new automobile factories, despite the regional benefits which they might bring unquote was a thinly veiled attack on the projected installation of Fiat automobile production in Belo Horizonte and more indirectly on the rumored plans for the assembly of Mercedes cars in the Campinas area. (This sentence must have been particularly galling to the recently reelected President of the São Paulo Federation of Industries (FIESP) Theobaldo de Nigris, who not only is the President of Fiat do Brasil, but as FIESP President was acting as host to the Automobile Congress.)

Another Vianna statement which caused consternation among automobile executives was his call for economies of scale by reduction of the number of models produced so that only models with an annual production run of 100,000 to 200,000 cars would be produced. As Brazilian passenger car production (net of pick up trucks and station wagons) was only 565,000 in 1973, Vianna's suggestion immediately raised some interesting questions and raised some threats for all the passenger car producers. Would Volkswagen be allowed to continue the production of its Kombi station wagon as a utility vehicle, but forced to select one basic car, abandoning also the entire Karmann-Ghia operation? But Karmann-Ghia was independent of Volkswagen, although the chassis was manufactured by Volkswagen. Would Chrysler, the weakest and newest producer, be forced to abandon passenger car production entirely as unproductive and be compelled to close down or concentrate

LIMITED OFFICIAL USE

DECLASSIFIED

Authority NND 37239

Best Available Copy

LIMITED OFFICIAL USE

4

on truck production? Who would decide the size car and price range of the model which each of the majors would be allowed to produce and what would happen if the demand were not there for the specific cars which the Brazilian Government endorsed, after forcing the manufacturers to abandon their investment in existing production lines? The automobile executives not only personally resented the implication that Government executives in remote Brasilia were better able to judge the market but that they were apparently willing to substitute their judgements for the long years of experience and market research conducted by the automobile companies.

Vianna repeatedly gave the impression of an Olympian, national planner who wished the automobile industry to conform with the revised national plans developed by the new government, in response, to be sure, to international economic factors over which it had no control. It was this manner and the apparent total disregard of the financial problems and the high cost of reorienting the existing automobile production lines from the models currently being produced, with detailed Brazilian Federal Government approval, to the new targets propounded by Vianna which so incensed the automobile executives.

The only major foreign executive present at the first day's sessions was Wolfgang Sauer, President of Volkswagen. While he could have been expected to accept with equanimity the call for emphasis on smaller, more efficient passenger cars, he took evident umbrage at what he considered might be an implied call for a return to the production of the recently discontinued 1200 cubic centimeter engine Volkswagen model and the possible implied criticism of Volkswagen for producing only passenger cars and utility vehicles, but no pure trucks. He quickly pointed out publicly the enormous costs in switching an assembly line from passenger vehicles to trucks.

Chrysler's President, Burke Hyde, told the Consul General privately that he was concerned by the official statements. All car models currently being produced in Brasil were being produced as a result of Brazilian Government approval, after exhaustive review, of detailed investment programs. Production could not be stopped at the government's desire nor could assembly lines be converted from passenger cars to trucks without enormous costs. In the latter case it would involve retooling, even if such conversion were justified by market analysis, and the justification was not on hand. (Volkswagen President Sauer made much the same point with regard to relative cost/benefit ratios as between cars and trucks.) Chrysler, which manufactures only cars which would be described as large in Brasil but which are considered compacts or sub-compacts in the United States, has been particularly hard hit in the last three months by the combination of skyrocketing gasoline prices and government curbs on consumer credit. The company is, in fact, the only automobile company which thus far has been required to make net reductions in its work force. Chrysler's exports have

LIMITED OFFICIAL USE

DECLASSIFIED

Authority

NND 37239

P740101-1

Best Available Copy

LIMITED OFFICIAL USE

5

prospered in recent years, but President Hyde noted that export markets were likely to contract rather than expand, except for Venezuela, because of the petroleum crisis. He considered Vianna's publicly announced hopes for a growth in exports as a basis for continued growth in Brasil's automobile production to be totally unrealistic. It took years to develop a new market just as it took three to four years from the conception of a new car model to its production. The Brazilian Federal Government was fully informed about all the aspects of the automobile industry, and Hyde found their new stand puzzling. National speed limits would save much more gas than the development of smaller, slightly more efficient cars. Besides many medium size cars were very efficient. Indeed, the only company producing a large car in Brasil was Ford.

Ford's acting President, in the absence in the United States of the President and Vice President, told the Consul General while the Congress was in progress that Ford had initially been concerned by the Government statements, but that their representatives had immediately buttonholed Minister Reis Velloso and BNDE President Vianna. As a result of the Ford representatives' exposition of the issues, the Government spokesmen had agreed that the Minister of Finance would not announce, as he had been originally scheduled to do in his concluding speech, a progressive, and from the Ford Motor Company's point of view punitive, road tax on cars by weight. This could have spelled the end to, or drastically curtailed, the production of Ford's Galaxie and LTD lines, and also would have had adverse effect on Chrysler. Finally, the tax would have effectively preempted any Mercedes car production.

The Ford executive also told the Consulate General during the conference that Reis Velloso had agreed to endorse a 15% to 20% annual growth in the automobile industry, which is, after all, perfectly consistent with BNDE President Vianna's speech. The 15% to 20% growth rate is in fact the rate which the Congress ultimately called for in its Concluding Statement published September 8 and which Minister Reis Velloso endorsed in a special interview to O Estado published on the same day. The Minister said that such a growth rate was consistent with the Second National Development Plan and demonstrated that the automobile industry and the Government were in agreement.

While the automobile manufacturers were seeking to mobilize public opinion in their favor through the press, were buttonholing official spokesmen as they finished their remarks, and were developing rebuttal speeches for delivery on the floor of the Congress, the parade of Government speakers continued. Minister of Commerce and Industry Severo Gomes delivered a rather brief speech in which he echoed the themes propounded by Minister Reis Velloso and Vianna. He again made the point bluntly that it was the time to quote revise priorities unquote. Severo Gomes sounded a rather nationalistic note, emphasizing that quote foreign unquote designs of large passenger cars had

LIMITED OFFICIAL USE

DECLASSIFIED

Authority NND 37239

Best Available Copy

LIMITED OFFICIAL USE

6

produced a disequilibrium in the industry and that greater emphasis must be placed on smaller cars, as well as tractors, trucks, and buses. The Brazilian Government intended to give greater emphasis to rail transportation and agriculture, and in effect the automobile industry would have to learn to live with these revised priorities. Vianna had touched on the dependence of the automobile industry on foreign technology but Severo Gomes drove the point home.

It was with great anxiety and some uneasiness that the automobile industry awaited Simonsen's closing speech on September 5. The atmosphere relaxed considerably when the Minister in a relatively brief speech did not mention a progressive road tax and did endorse the 15% to 20% growth rate for the automobile industry agreed upon with Minister Reis Velloso. (The senior Ford executive had told the Consul General privately that Ford's own in house growth projection for the next five years was 19.1% and thus they were happy with the agreement achieved.) The Government had inspired or leaked stories previously that Minister Simonsen would announce a 7% price hike for automobiles in his closing address. Instead, he surprised his audience by stating that prices of vehicles would shortly be freed from controls, in order that the industry itself might set prices in accordance with market supply and demand. Simonsen added, however, that this would not signify an absence of Brazilian Government interest in those price levels and that the Government had more powerful instruments than the Government Price Control Commission (CIP) with which to exercise control over prices. He specifically emphasized credit policy. Simonsen also said that economies of scale and resulting lower production costs would lead to continued profits for the industry, even if part of benefits from increased productivity were passed along to the consumers in the form of lower prices. (Thus while Simonsen and Vianna shared the same objectives, there appeared to be a significant difference in their economic philosophy.) Finally, greater emphasis should be given to exports by the automobile industry, which by increasing production runs would aid in developing lower production costs. (Just how these increased exports could be achieved, when car sales were declining virtually everywhere in the world, continued to leave automobile executives baffled. Burke Hyde pointed out privately the long lead time required to develop new export markets.)

According to the press, Minister Simonsen did not have the last word. The Secretary General of his ministry delivered a longer address which only served to confuse matters. Freire continued to sound the tougher line that greater attention must be given to truck and bus production and less to passenger vehicles. Freire also apparently contradicted Vianna, who had said that no incentive of any kind should be given to the installation of another passenger car factory, and Minister Reis Velloso, who had spoken in the same vein. Freire said, perhaps reflecting a more mature Government reconsideration of the proposed Fiat investment in Minas Gerais, that the prohibition of the establishment of additional automobile companies in Brasil would provide quote excessive unquote protection to the firms already here. Volkswagen President Wolfgang Sauer was so confused about what the Brazilian

LIMITED OFFICIAL USE

DECLASSIFIED

Authority

NND 37239

Best Available Copy

LIMITED OFFICIAL USE

7

Government's real intentions were after Freire had finished speaking that Sauer blurted out to a reporter: quote I am a fool--I understand nothing anymore unquote.

The Congress did appear to leave the Fiat passenger car investment up in the air. Crefisul President, Richard Huber, an American, had previously told the Consul General that he had counseled Fiat President Agnelli, when the latter was in Brasil this summer, not to go ahead with passenger car production, because the market was saturated, but to concentrate instead on the tractor and truck portions of the proposed Fiat investment. Huber said Agnelli had seemed favorably impressed with the advice and in any case intended to proceed very cautiously on the whole investment. (A senior Mercedes-Benz executive, meanwhile informed the Consul General that Mercedes had never intended to begin Mercedes passenger car production at the new plant site near Campinas.)

The automobile companies' public rebuttals to some of the Government charges were delivered by Mario Garnero, President of the Sindicato Nacional dos Fabricantes de Tratores, Caminhões e Automoveis, and by Newton Chiaparrini, the Sindicato's Vice President and Ford's General counsel. There were technical production factors which prevented the production of more trucks in the last two years, Garnero noted. Demand had been very uneven historically and notably soft for prolonged periods, thus discouraging the necessary capital investment for greater production. Moreover, 75% of all the cars produced in Brasil were in the 1200 to 2000 cc. engine capacity class, ~~1444~~ qualifying them as economic in terms of gasoline consumption. Thus the car industry was already complying with the Government's fuel saving objectives. Chiaparrini pointed out the apparent contradictions in some of the government pronouncements, particularly those related to the problem of a future truck market of sufficient size to justify the investments required to reach the economies of scale desired by the Brazilian Government.

After the anguish of the initial days, harmony apparently largely returned to the automobile industry with the adoption of a relatively brief Final Concluding Document, which as noted above, has since been publicly endorsed by Minister Reis Velloso. The document recounts with evident satisfaction the vital role of the automobile industry in the past and future economic development of Brasil and its important contributions to GNP and quote the national strategy unquote. The industry's growth under present changed conditions would take place within the national objective of a 10% GNP growth rate. After appropriate bows to the Government's desires for greater development of domestic technology, for increased exports, for greater distribution of income, and for control of inflation as well as to the changed circumstances (i.e., the petroleum crisis and the need for fuel economies), the Congress then underlined the necessity of protecting the national automobile industry while it found solutions for some short term problems and the importance of recognition (on the Government's part, it was implied) of the need to protect the

LIMITED OFFICIAL USE

DECLASSIFIED

Authority

NND 37239

Best Available Copy

LIMITED OFFICIAL USE

8

investments already carried out in conformity with plans approved by the Brazilian Government. The Final Document continued that it was essential to the automobile industry to be able to grow at an annual rate of 15% to 20%. The number of companies already established in the country was sufficient to assure the degree of competition in all types of vehicles, and in general all types of automobile parts, in order to guarantee the Government's repeatedly expressed desires for economies of scale. If the Government should decide that new projects were necessary in the specific sectors of heavy trucks, tractors, or automobile parts, the companies already installed asked that they be informed first in order that they might make appropriate proposals to the Government. Export programs already underway should be carried out in accordance with stipulated provisions and if possible be expanded. Finally, the policy of horizontal structure of the automobile sector should be maintained and private, national enterprises in the automobile parts industry strengthened, a direct response to one of Vianna's criticisms.

Emphasizing the spirit of harmony which had been reached with the automobile industry as reflected in the Congress's closing statement, Minister Reis Velloso's special interview published in the O Estado September 8 begins by noting that the newly adopted strategy calls for a "gradual" adjustment to the new realities of the world and national economy. There is "convergence" within the sector and by implication between the industry and the government that there should be no confrontation and that the sector should continue to grow at a rapid pace. The Minister then goes on to restate with approval the essential parts of the concluding document, including the objective of 15% to 20% annual growth of the automobile industry, a target which he states is consistent with the Second Brazilian Five Year National Development Plan. Minister Velloso states that the present number of existing firms is "in general" sufficient to assure competition and bring about economies of scale. The viability of existing firms should therefore be protected. The non-integrated character of the assembly industry should be maintained except for certain special regional situations to be considered in detail (evidently a reference to Fiat). The automobile parts industry should achieve economies of scale to obtain lower prices. Price policies for both the automobile assembly industry and the parts manufacturers should assure adequate return on investment "without irrational controls." Both the Government and the industry should be concerned with guaranteeing quality and safety at prices which will permit an increasing number of persons to be able to purchase cars.

This moderate statement contrasts with some of the initial rhetoric which alarmed the companies, particularly the foreign automobile assemblers. Automobile industry sources informed the Consulate General that the industry expects that a committee will be established under General Araken de Oliveira, the President of the National Petroleum Council, to study measures to be taken to conserve fuel in the highway transportation sector. The industry expects to be able to consult with the committee on engine design, highway speeds and other matters of mutual

LIMITED OFFICIAL USE

DECLASSIFIED

Authority NND 37239

Best Available Copy

LIMITED OFFICIAL USE

9

interest.

SIGNIFICANCE: It appears to both industry sources and the Consulate General that the attention of Brazilian government leaders was focussed by the need to speak at the Automobile Congress on the important part which the automobile industry must play in dealing with the related national petroleum and balance of payments problems. The automobile industry plays a significant role in all three of the major import categories which have shown large increases during the first half of 1974: petroleum, capital goods, and iron and steel. Although there was much initial consternation among foreign automobile executives, the prevalent view by the end of the Congress was that the Brazilian Government had not singled out the automotive industry because it was largely dominated by foreign firms but simply had given it priority attention because it bulked so large in both the petroleum and the balance of payments problems. Industry sources stressed that they had not been informed in advance by Government officials concerning their criticisms and proposals, but that Government officials had responded in a satisfactory manner to detailed presentations of the industry's case on the various issues raised. The final communique was an attempt by both sides to meet the real problems facing the country and the industry.

le
CHAPIN

LIMITED OFFICIAL USE

DECLASSIFIED
Authority NND 37239



Best Available Copy