

DIARY

Book 207

Brasilian Negotiations - Part I

September 26, 1938 - February 15, 1939

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NEWS LETTER ON BRAZIL  
FROM Charles A. Thomson  
Foreign Policy Association

13159

Confidential  
Not for publication.

Buenos Aires,  
September 26, 1938

On the night before I ended my month's stay in Brazil, I met with a group of some twenty university professors, industrialists, writers and economists. One of the questions we discussed referred to Brazil's foreign policy, in the case of a European war. "Brazil will never fight on the side of Germany," declared one member of the group, and his statement found unanimous support. The talk brought out -- what is always so striking to anyone who has known the hostility to Yankee imperialism in many Spanish-American countries -- Brazil's strong tradition of close friendship with the United States. These Brazilians hoped that the American states could keep out of a European war, but, come what may, they held that the nations of the New World should adopt and follow a common policy.

While realists tend to view President Vargas as a political opportunist par excellence, no Brazilians I talked with seriously believed that Vargas would -- no matter what flirtations he may have considered in the past -- attempt to carry Brazil away from its century-old alignment with the United States. In the field of trade Brazil has been willing to talk business with all customers. In the new rearmament program (to which I want to refer later), Germany won the right to provide the bulk of supplies for the army. But geography, historical tradition and economics are to be counted in the balance on the side of the United States.

Moreover, internal factors influence Brazil's attitude toward Germany. Brazilians have followed the negotiations on the Sudeten question with close attention. The arguments advanced for a plebiscite and for the minority rights of German residents in Czechoslovakia could theoretically be urged also in favor of the German colonies in Brazil. One journalist in a recent article opposed the principle of plebiscites, suggesting that if one were held in Brazil, the Germans and their sympathizers might win a majority in the three southern states of Parana, Santa Catharina and Rio Grande do Sul. While this is an exaggerated statement, informed observers do not minimize the threat of German penetration. They believe that the Nazis have been disposed to go just as far as they were permitted by counter forces.

Representatives of one Brazilian party told me that within the last six months they had been approached by certain Germans high in the business world, who asked what their attitude would be should the State of Rio Grande do Sul separate from Brazil to become a German colony or protectorate. The Germans offered this party, in return for a pledge not to oppose such a move, war materials, troops and other assistance to enable them to overturn the Vargas government



and take power in Rio. It was intimated that Italy would support the German move. But the baited hook failed to bring a nibble.

There is great need for a thorough study -- it would take six months or a year -- on the number and activities of Germans, Italians and Japanese in Brazil. Accurate facts are disappointingly scarce. The last national census was taken in 1920, and the next one is not due until 1940. Immigration statistics are an unsafe guide, for no one knows to what degree their totals have been modified by emigration, deaths and other factors. The most recent government estimates place the number of Italians in the country at 770,000; of Japanese at 134,000; and of Germans at 73,000. This latter figure seems incredibly low, since Sao Paulo State alone estimates its German population at 27,000; and the colonies resident in the other southern states of Parana, Santa Catharina and Rio Grande do Sul are larger in all probability. But the Germans in Brazil have been significant not alone for their number, but also for their close-knit organization, and their aggressive zeal within recent years for spreading Nazi doctrines and influence. This crusade finally became an open threat to Brazilian unity; and the Vargas regime took steps to scotch the danger. On April 19 last a decree barred foreigners and foreign organizations from engaging in any political activity in Brazil, and also forbade propaganda favoring political parties in the immigrants' home lands. This measure was supplemented by laws in the States of Santa Catharina and Rio Grande do Sul, requiring that teachers in German and other foreign schools be Brazilians and classes be conducted in Portuguese. Such was German resentment at these measures that the Nazi "cultural attache" in the Rio embassy, who was reported to have made even the German Ambassador play second fiddle -- the attache was a Nazi, while the Ambassador was not -- left for Berlin by special plane. It is not yet clear to what degree this political set-back will affect the German trade drive. For the first four months of 1938, Germany retained the lead over the United States in Brazilian imports it had won in 1936 and 1937.

At the same time President Vargas has eliminated from the political scene Brazil's domestic fascists, the Integralists. When on November 10, 1937 he made himself absolute dictator of Brazil, scrapped the 1934 constitution and proclaimed a more authoritarian document, he had the active support of this strong, nation-wide party. The Integralists were led to expect they would play a prominent role in the new set-up, with one or more cabinet positions. (Leaders of other Brazilian parties, experienced in the ways of local politics, firmly believe the Integralists were receiving financial aid from Germany and Italy; they were spending far more money than could reasonably be secured from sources in Brazil). But once Vargas had consolidated his position, the Integralists were thrown into the discard and

their party dissolved. After the abortive coup of last May, many of their members were jailed. The party is now underground; some observers believe it effectively crushed and its principal leaders discredited; others recall that it included numerous army and navy officers among its supporters and hold that it still retains sufficient force for a come-back should a favorable opportunity arise.

Thus President Vargas has taken action against both foreign and domestic fascists, and has made clear that his rule is dictatorship, Brazilian style. If you don't mind, I should like to put in here a few words as to how Brazil, with its Portuguese tradition, language and culture differs from Spanish-American countries. For Vargas is only to be understood in connection with his milieu. One of the lessons which a visit to Brazil teaches is that Brazilian conditions must necessarily be defined in Brazilian terms.

The Brazilian largely lacks the Spanish sense of personal dignity; he cares little for "front" or ceremony. He is informal, casual. At times he is unbelievably casual. Witness the Integralist attack on the Presidential Palace on May 11. The rebels did not trouble to post guards at the gates of the palace grounds; people drove in and out to see the fighting which was going on only twenty-five yards away. The Brazilian is tolerant, not fanatical. He makes no fetish of abstract principle. He lacks the cruelty of the Spaniard. He does not like to kill. The leader of the May revolt was not shot, but given only a ten-year sentence. The Brazilian has a genius for compromise; he does not recognize sharp lines of division; he does not make permanent enemies. Brazil does not have a color line, but rather a color zone -- though the transition from white to black ranges by almost imperceptible stages. The same characteristic may be applied to social and political alignments. Brazil lacks a clear-cut Left and a clear-cut Right. The men who today are Vargas' enemies may be in his cabinet tomorrow. It is largely true that because President Vargas corresponds to this medium -- and also to a certain transitional stage in Brazil's political development -- he has been successful in holding power.

His government is of course a dictatorship. Talk of the plebiscite which was to ratify the November 1937 constitution is seldom heard. President Vargas and his associates are reported to feel they need not trouble with it. They apparently find it more convenient to govern directly by decree, than bother with a legislature. Interventors or federal commissioners, named by Vargas to replace former governors, rule all states except one. Civil liberties are at the whim of the authorities. Censorship muzzles the press;



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there is no freedom of speech. One American remarked: "I never attempt to discuss politics, except in small groups at private houses; I don't write about it in letters, for you never know when they will be opened." Arrests are arbitrary. Just before I left Sao Paulo, some twenty of the most important leaders in the Salles de Oliveira party were seized at the order of the Interventor, and told they could choose between imprisonment and exile from the city of Sao Paulo. I talked to men who had been imprisoned on suspicion for long periods. They left no doubt in my mind as to the fact of extensive police brutality. It was not "respectable" politicians who suffered, but alleged communists and to a lesser degree Integralists arrested after the attempted coup of last May.

The Vargas regime rests primarily on the support of the army and navy. It is a military dictatorship; but it is more than that, for it commands considerable popular support, due to Vargas' virtuosity at political juggling and conciliation, and to his courting of the masses through social legislation and other means. The president's supreme political astuteness is accorded universal recognition. Vargas does not talk; no one apparently knows what is in his mind, or what he will do next. He does not hold grudges; if he needs a man, he will use him, no matter if that man has fought against him in the past; but the discard awaits any man or party whose usefulness is ended. The president balances the power of one political leader with another, one state with a second, one general with his rival. A foreign observer remarked: "Vargas has been double-crossing the generals so fast, that he has them all dizzy; no one of them knows how long he can stay on his horse." The president is careful to see that no member of his administration achieves too great power or position. Francisco Campos, Minister of the Interior and author of the 1937 constitution, has seen his personal star wax and wane. His reported admiration for fascist ideals is balanced by the democratic sentiments of Dr. Oswaldo Aranha, Foreign Minister, former Ambassador at Washington and friend of the United States. In the army, General Goes Monteiro, Chief of Staff, is played off against General Dutra, Minister of War. These two men, formerly friendly, are now reported to be at odds. Goes Monteiro is considered the more able and intelligent of the two, and is rated Brazil's best strategist; he was the star pupil of General Gamelin, when the latter -- now France's Chief of Staff -- was head of the French military mission in Brazil. Gossip has it that Aranha and Goes Monteiro favor holding the constitutional plebiscite and a gradual return to democratic norms, while Dutra opposes the plebiscite, and is suspected by some of ambitions to set himself up as the head of a neo-fascist regime. Talk of Vargas' possible overthrow turns most frequently on the Dutra-Goes Monteiro rivalry and friction.

President Vargas announced with his November 1937 coup the establishment of a New State in Brazil. Democracy had failed; Brazil henceforth was to have an authoritarian regime, which would unify the country in the face of a chaotic international situation, suppress subversive influences, and put new efficiency and drive into government. But what in practice, as distinguished from theory, does the New State stand for?

1. Direct government, that is, personal dictatorship. Vargas has ruled Brazil since the revolution of 1930, but there is some truth in the contention that events have limited his opportunities for constructive achievement. Between 1930 and 1934, attention necessarily centered first on consolidation of the new regime, then its defense against the 1932 Paulista revolt, and finally on the drafting of the 1934 constitution. The first Congress under this constitution was characterized by one foreign resident as "worse than a Ladies Aid Society"; talk blocked action. But with Congress out of the way after November 1937, governmental machinery began to hum. Office-holders were forbidden to hold more than one job; and the efficiency of the bureaucracy was stepped up. Some of the worst grafters were eliminated. (In this connection Vargas is generally credited with entire personal honesty.) The president and his advisers turned out decrees much more swiftly than Congress had produced laws. Since November 1937 it is stated that 500 laws and 3000 decrees have been issued. But much of this legislation is hastily and carelessly drafted. Formerly debate in Congress served to iron out defects, but now that chance is lost.
2. Centralized government, as opposed to the former emphasis on state's rights, which in Brazil has been carried farther than in the United States. To use a word coined by Foreign Minister Aranha in an interview, the tendency was to "Chinify" Brazil. In several cases the state militias were armies in all but name; and some were equipped with tanks and bombing planes. Brazil's only anti-aircraft guns were ordered by Governor Flores da Cunha for the state forces of Rio Grande do Sul, but arrived after he had been ousted. States had the power to levy export duties. Now President Vargas has reduced the power of the militias, particularly in those states where they might be used against him; and also decreed progressive elimination of the state export duties. Opposition to this trend toward centralization is strongest in Sao Paulo, Brazil's richest and most productive state, which seeks as far as possible to run its own affairs.
3. Nationalism. I have already mentioned the legislation against foreign organizations, and the quietus put on German activities. In addition the November 1937 constitution required the shareholders of



banks and insurance companies to be Brazilians (a provision not yet enforced) and pointed toward the progressive nationalization of mines and waterpower. Last April a decree excluded foreign interests from the petroleum industry, just at the time when a large refinery of Standard Oil of New Jersey was about to begin operations.

4. Rearmament. Along with the nationalistic emphasis has gone a program to strengthen the armed forces. This had been under discussion for years, but the November coup freed Vargas' hands for immediate action. Brazil plans to spend some \$100,000,000 on this program during the next five years. According to an agreement concluded before the President fell out with the Nazis, Germany is to provide the bulk of material for the army - heavy artillery, light artillery, anti-aircraft guns, etc. Brazil is scheduled to receive from Germany each year for the next five years 50,000,000 marks worth of supplies, or a total of 250,000,000 marks. Of this sum, approximately five-sixths can be paid in compensated marks, and the balance in free exchange. (Thus in spite of Washington's efforts to discourage Brazil's experiments in barter trade, the country - barring a European war -- is committed by this arms agreement to compensated marks for at least five years. A high military authority told me he considered the dependence of Brazil's army on German supplies a great mistake; should a European conflict break, Brazil would be cut off from Germany, would have to turn to the United States for munitions, and would be handicapped by a confusing variety of models in its armament.) For the navy three submarines were bought from Italy, and negotiations are reported under way for three more. Three cruisers were ordered from England, and three others are to be built in Brazil, using fabricated material from the United States. In this way Brazil plans to secure the cruisers which it originally proposed to lease from the United States.

Some observers view Brazil's failure to obtain those cruisers as a crucial event profoundly influencing the recent trend toward dictatorship. According to this theory, the success of Argentina in blocking the proposed deal spread consternation among Brazilian leaders. Brazil had believed it enjoyed a favored position in American friendship. But Argentina, its most feared rival, had been able to ruin its prospects. President Vargas is reported to have called together army and navy chiefs and pledged them his support in building up Brazil's armed strength against this threatening development. Thus was born the alliance which made possible the November 1937 coup. For only Vargas could give the military leaders the money they wanted. Both of the leading candidates in the presidential campaign of that year had obligations to various interests and supporters; neither would be strong enough to take the step which alone could

make possible the enlarged expenditures for the armament program -- suspension of service on the foreign debt. So the elections were called off, and Vargas with the backing of the army and navy made himself absolute dictator. Now the armed forces are getting what they want, and resumption of service on the foreign debt is a dead issue.

5. 'Mixed' economic policy. While the 1937 constitution pointed Brazil toward the "corporative organization of national economy," the most important recent shift in policy -- that relating to coffee exports in the fall of 1937 -- was away from regimentation and in the direction of liberalism and free trade. The government abandoned price defense, and the coffee export tax was reduced from 45 to 12 milreis a bag. But in May of this year over-production again threatened, and a decree required each grower to turn over to the government a "sacrifice quota" of 30% of his production (15% in the case of the finer coffees). However, coffee experts with whom I talked believe that Brazil is approaching an equilibrium between production and market demand. In the state of Sao Paulo alone between 300,000,000 and 400,000,000 trees have been cut down; the coffee borer has reduced output; there seems to be growing recognition that future emphasis must be on improvement of quality rather than increase of quantity. Hopes are expressed that the quota provision may be removed early in 1939, and future reestablishment of control avoided.

The fall in the world price of coffee has been compensated in the case of Brazil by a quantitative increase in exports. Nonetheless Brazil has suffered a recent recession; internal trade is estimated at about 25% below last year, but the decline has been less severe than in the United States.

The Brazilian government railroads have under consideration purchase of 26 locomotives and 1000 freight cars, worth some \$6,000,000. The Germans are after the order, and are reported to have offered four-year credits, but are unable to promise prompt delivery. Americans in Brazil, in view of the country's great need for improved and more extensive communications, argue that it is of strategic importance for the United States to secure this order. At the time of my stay, decision promised to hinge on the ability of the Export-Import Bank to offer credit terms which might compete with those of the Germans.

6. Social legislation. The Vargas regime since 1930 has been responsible for a large mass of social legislation, including the 8-hour day, one day's rest in seven, special protection for women and children, and now a minimum-wage law which is soon to go into effect. While labor supporters deny that this legislation has been very effective, employers report that it is enforced to an uncomfortable degree. Labor organization is under government control. Unions are



organized by the government, protected by the government and subordinate to the government. Strikes are forbidden. In Sao Paulo city the cost of living index rose from 100 in 1934 to 161 in 1938, the chief increases being in food items; but in other parts of Brazil, particularly the rural districts, the rise was less marked. Studies made in Sao Paulo estimate 10 milreis (about fifty cents in U. S. currency) to be the minimum living wage, to provide bare necessities for a family of five; but the great bulk of the wage-earners are reported to receive less than this minimum figure.

7. President Vargas has yet to show achievement in a field where a dictator usually makes his greatest claims -- that of public works. One of the most frequently repeated charges made against him is that he is not a builder. Brazilian cities, such as Rio de Janeiro, Sao Paulo and Belo Horizonte, have been going through a construction boom, and many new government edifices have been erected. But Brazil has almost no paved roads, outside of a ten-mile stretch south of the city of Sao Paulo, and the section connecting the summer capital at Petropolis with Rio. Vargas has promised to initiate shortly paving of the road between Rio and Sao Paulo. Engineers also have under survey the route of a railroad across the northern edge of the Chaco to link the Brazilian city of Puerto Esperanza with Santa Cruz in Bolivia. But these developments are still substantially in the project stage.

Discussion is again under way on plans to exploit Brazil's vast ore deposits in Minas Geraes, much of which run 60% pure iron. The lack of good coal has handicapped development of heavy industry, but a number of blast furnaces and mills are now operating with charcoal and petroleum; this year Brazil exported some steel to Argentina. Optimism is expressed in certain circles at the possibilities of a new process for smelting at low temperatures. Some of Brazil's present leaders argue that if the country is to escape from a colonial status, where it exports raw materials and competes with plantation countries with low economic and social levels, it must industrialize, and should exhaust all efforts to that end.

How long can Vargas stay in power? No one in Brazil will answer this question, for no one knows. The President's wizardry at political juggling is an essential element in his success. But it also makes for almost a daily shift in guesses and for continuing uncertainty concerning the eventual trend of Brazilian politics. No one knows when Vargas' hand may slip and some one of the many balls in the air may escape his grasp. The most experienced observers

take refuge in the assertion that practically anything can happen. There are some who believe that opposition to the present regime is gradually coalescing. Yet this opposition may lack opportunity to strike, unless Vargas suffers defection on the part of his military associates, or the economic curve takes an acute turn downward. Should he hold on indefinitely, the continuance of dictatorship or a gradual return to democratic processes is likely to be determined by the relative strength of the various domestic and international pressures which play on the "fox of Cattete."

I don't want to close without at least a brief reference to the matter of cultural relations. This is not the time for any detailed analysis or definite recommendations. But my whole visit to Brazil only served to underline the words of Foreign Minister Aranha that "it is terribly important for our two peoples to understand each other." It is substantially true that we in the United States know least about the country in South America which is most important to us.

Let me limit myself here to two or three items which bear on this subject. First, Brazilians reveal to a unique degree a widespread desire, a genuine eagerness for closer ties of understanding with the people of the United States. One American diplomatic officer remarked, "We official representatives usually have to work very hard to develop interest in our country; here we have that interest served to us on a silver platter." Yet many Brazilians feel that we have come to take their friendship for granted; and that we believe no particular effort is necessary to retain it. One writer told me: "The United States has abandoned us; we are a nation of 40,000,000 people; we play an important role in South America; but you pay no attention to us. Italy and Germany are doing their best to win us for fascism. They furnish material to our newspapers; they have our journalists in their pay. They send us professors and lecturers. They give us radio broadcasts in Portuguese. But the United States is losing us. You need not copy fascist methods. But we need your active interest and support."

The situation in Sao Paulo University may serve as a case in point on the present situation. On its arts faculty are ten Italian professors and eight French. In addition to their Brazilian salary (which is low in comparison with foreign standards of living), their home salary is continued, their time in Brazil is considered double for a retirement allowance, and they are granted travelling expenses to return home once a year. The only American professor on the faculty is without any of these perquisites, which actually do not rank as luxuries, but serve to balance up the debit items involved



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in working abroad. His role is not that of propagandist -- certainly not, in the narrow and derogatory sense of the word. He is trying to do a sound and scholarly job of teaching American history. In addition, his command of Portuguese has opened to him newspaper columns, which have given his interpretations of American life a wide audience. Yet he has no support from his home land. In a situation which is complex and unstable he stands alone.

I cite this particular instance only because it illustrates a definite problem, on which we have yet to make any effective attack.

NEWS LETTER ON PARAGUAY  
Charles A. Thomson  
Foreign Policy Association

Confidential  
Not for Publication.

Buenos Aires  
October 10, 1938

Thanks to the kindness of Ambassador Spruille Braden, I have just witnessed the signing of the Chaco arbitral award, which definitely fixes the boundary between Bolivia and Paraguay. The ceremony was held under the white and gold magnificence of the "salón de honor" in the Argentine Foreign Office. Thus, the road to the long-sought peace is finally free of the last serious hurdle. In passing, I might say that informed opinion generally accords Spruille Braden major credit for the successful conclusion which has happily crowned three years of delicate and arduous negotiations.

During my recent visit to Paraguay, I found that country ready to welcome the Chaco peace. The overwhelmingly favorable majority in the plebiscite of August 10 surprised even the most experienced political observers. Geronimo Zubizarreta, the Liberal leader who had refused to sign the pact, found no support for his intransigent position. The voting in the plebiscite seems to have been essentially fair; it is reported that the government was prepared to use pressure to secure a favorable result, but found that such intervention would be superfluous. Opponents of the peace terms had criticized most the failure to give Paraguay any share in the alleged petroleum wealth along the western edge of the Chaco. Their chief complaint against the plebiscite was that its phrasing was loaded in favor of an affirmative vote. But they now appear willing to accept the popular decision, and declare that Paraguay will loyally abide by the peace terms and that no subsequent government will question their validity.

The war has made the army the dominant factor in the country. In the past, two major parties disputed control of Paraguay. At the end of the disastrous Five Year's War with Argentina, Brazil and Uruguay, a group of generals organized the Partido Nacional Republicano, known as the Colorados. This party ruled for 34 years, from 1870 to 1904. Meanwhile, civilian elements had formed the Liberal Party, and this group, although plagued at times by factional strife, dominated the political scene from 1904 to 1936. Foreign observers report that the Liberals are more blessed with able and intelligent leaders than their traditional opponents.

In February 1936 the Liberal president, Dr. Eusebio Ayala, who had served throughout the war, was overthrown by Colonel Rafael Franco. The Franco movement was backed by restive ex-service men - demobilized after fighting ended with the armistice of June 1935 - by labor unions and by some students. These elements considered the old parties discredited and sought a new political and economic alignment. Moreover, Ayala's position had been weakened, due to fears that he sought a second term,



and to the jealousy excited among military leaders by the special favors heaped on General Estigarribia. Franco's regime made some efforts at land distribution and put on the books several pieces of social legislation, including establishment of a National Department of Labor, with power to settle industrial disputes. But politically his administration was a hybrid. Juan Stefanich, the leading figure in the cabinet, was credited with semi-fascist ideas and a nationalism which would return Paraguay to the dictatorial traditions of its first half century as a nation. Labor and the students, on the other hand, had been influenced by communist and socialist ideas. Franco failed to get his dissident supporters to pull together, despite efforts to unite them in a new party. He also proved unable to hold the entire support of the army - whose war-time leader, General Estigarribia, he had imprisoned - or to enlist the backing of the more solid and conservative civilian leaders. His government was overturned in August 1937 by certain army officers, in alliance with the Liberal politicians.

A provisional regime, headed by Felix Paiva, a professor, was set up. But the civilians in the present government are described as substantially "messenger boys" for the army officers, who hold the actual reins of power. Four men particularly stand out: Colonel Ramon Paredes, a shrewd politician in uniform who occupies the ranking cabinet post of Minister of the Interior; Colonel Antola, commander-in-chief of the army; Major Arturo Bray, half-English in blood, who fought with Britain's forces during the World War, and who now is Chief of Police of Asuncion; and Major Soes Valdes, commander of three cavalry regiments. All of these men are under 45 years of age. Their rule is in effect a military dictatorship, which justifies itself on the ground that Paraguay needs above all order and tranquillity. The press is closely censored, and offending newspapers suspended. Many of the most important opposition leaders are in exile. The relation of this reigning quartette to General Estigarribia is not entirely clear. Some observers believe that the "Four Horsemen" prefer to keep Estigarribia in his present post in Washington, fearing that if he returns to Paraguay, they will be eclipsed. Some sentiment exists in the country for establishment of a strong national government, with Estigarribia at the head. On the other hand, it is reported that Estigarribia himself would prefer not to take office during this transitional period.

Army leaders declare that Paraguay is fundamentally a democratic country, and that their rule is temporary. Congressional elections were held on September 25th. The Colorados withdrew from the contest on August 31, charging lack of guarantees and official pressure in favor of the liberals. In consequence, the Liberals had no opposition and captured all seats in both houses. Paraguay has a compulsory voting law, so the Colorados cast blank ballots at the polls, whose number was reported to approximate

30% of the total 125,000 votes cast. Despite this none too encouraging venture toward democratic "normalcy", hopes are expressed that the convening of congress will permit civilian influences gradually to reassert themselves, and that the process will be continued by presidential elections next March. On the other hand, some military leader may upset the apple-cart by another attempt at dictatorship. The army, which is believed to number around 15,000 men, still consumes from 60 to 80 percent of the government budget. The country's economic situation may decide the issue between democracy and dictatorship.

Paraguay came out of the Chaco conflict with increased economic strains; and this despite the fact that it fought the modern world's most economical war. Paraguay ended the struggle without any major increase in its foreign debt, which now stands at 600,000 pounds sterling - for a nation of less than 1,000,000 people. Bankers estimate that the internal debt does not exceed 13,000,000 gold pesos (or about \$9,000,000.). Service on the foreign debt was suspended during the conflict, but both interest and amortization payments have since been resumed. Food was not rationed; agricultural production was markedly increased. Paraguay now imposes no quotas on imports and only partial exchange control. Government salaries are paid up to date. During the struggle the common soldier was paid at the rate of one Paraguayan peso a day, and the total per diem cost per man, including supplies and food as well as pay, did not exceed, according to the Minister of War, nine Paraguayan pesos. (The Paraguayan peso is now quoted at 70 to the Argentine peso, or approximately 250 to the dollar.)

How did Paraguay carry on its war-time financing. In addition to using its small gold reserve, it requisitioned the great bulk of foreign exchange accruing from exports, paying exporters its equivalent in paper pesos. With this exchange it purchased what supplies were imported. The paper pesos were of course the product of the printing press, and the result was serious inflation, the peso declining from 19 to the Argentine peso to a ratio of 90, before recovering to the present ratio of 70. Moreover, the Government requisitioned annually from cattle-growers some seven or eight percent of their herds, paying them in script, which subsequently has been exchanged for gold peso bonds, and was included in the figure for the internal debt just mentioned. Local banks and business houses also made relatively small loans, which in great part are reported to have been repaid.

Outside purchases of military supplies were cut to a minimum. Paraguayan leaders declare that the country started the war with an army of 3,000 men, of whom only 1,000 were in the Chaco. (Some



informed sources, however, raise the 3,000 figure to 5,000.) It had at the finish 50,000 to 100,000 men, but never any more than 25,000 in the front line. Officials state that foreign purchases were principally rifle and machine-gun ammunition, some artillery ammunition, and a few planes, with ten the maximum number in active service at any one time. They assert that Paraguay imported no artillery, no hand-grenades, no airplane bombs. Supplies of the last two items were supplied by a domestic war industry. The hand-grenade became a very important weapon, the soldier often preferring it to the rifle; production started at the rate of 30 a day and finished at the rate of 130 an hour. Truck bodies at the start were turned out at the rate of one every seven days; at the end seven per hour. But the Paraguayans assert that their best source of supplies was Bolivia, and that at the end of the war 80 percent of their armament had been captured from the enemy, including 40,000 rifles. They started the war with 44 pieces of artillery and finished with 66; yet, General Estigarribia told me that for months at a time the artillery was silent for lack of ammunition.

Paraguayan leaders are also united in denying that they received any large-scale aid from Argentina. They assert that the Buenos Aires government facilitated them no loan (although there were some short-term transactions with Argentine banks), or supplied them with any munitions. However, when the League embargo was on, Argentine officials are reported to have shut their eyes to transit of European shipments up the Paraná River. The Paraguayan army included a so-called Argentine regiment, but this was recruited in the Argentine province of Formosa, which is largely populated by Paraguayans. An Argentine military mission was stationed at Asuncion when the war broke out, but this was promptly withdrawn. The Paraguayan army had the help of a few foreign officers, including a number of White Russians, but only a handful of Argentines. These Paraguayan denials, however, have not served to convince some foreign observers of the entire absence of Argentine assistance. Proof of this cooperation is lacking, but suspicion lingers. I pass these facts and figures on to you, for what they are worth in our present state of knowledge.

It is largely true that Paraguay is a country of no statistics and few definite facts. What you learn is always approximate, ~~more or less~~, more or less. Written sources are few, and verbal statements need to be checked and re-checked. For example, take the rise in the cost of living which the Chaco War and inflation have brought to Paraguay. A leading lawyer told me that since 1932 it had gone up three times, reporting that he had to send his servant to market with 600 Paraguayan pesos now instead of 200.

Then I came upon the manager of a foreign bank wrestling in his office with a sheet of prices; the salary of his Paraguayan employees shifts with the price level. He ventured with some caution that the cost of living had gone up between 300 and 400 percent. Then I talked with a group at the National Confederation of Labor who asserted that the rise was 600 percent. I put it down as a Paraguayan fact that the increase had been at least three-fold.

But wages have lagged behind, and consequently there is some ground for discontent. The common laborer in town makes about 150 Paraguayan pesos a day, in the country about 100 (respectively 50 and 35 cents in U.S. currency). Wage figures furnished by labor leaders indicate a general rise of from 200 to 250 percent from 1932 to the present. The labor movement claims some 25,000 members. The strongest unions are found among the port workers and in building construction, packing houses, textile and shoe factories, and on the railroads and street-cars. In 1931 the labor unions were dissolved by the Guggiari government, but with the accession of Colonel Franco in 1936, they came out again into the open; the National Confederation of Labor was formed, and some gains were made. Leaders now advocate a moderate policy and "democratic" tendencies, and play down socialist and communist ideas, which in the past had won some ground.

Nonetheless, the danger of "communism" is cited by the military as justification for the present dictatorial government. It serves equally well those Paraguayans - chiefly army officers and war veterans - who think of themselves as fascist, and who organized the "Frente de Guerra". One colonel told me, "The officers are fascist principally because they are opposed to communism, which is the worst type of dictatorship; and in the past communist ideas have been strong among the masses." The "Frente de Guerra" has attacked both old parties, criticizes "sloppy" democracy, and argues for nationalism and dictatorship. Opinions differ widely as to how much real influence it has. Aside from the "Frente," it does not appear that Nazi and fascist influences have made much dent. Some of the newspapers carry Italian and German propaganda; both nationalities run schools in Asuncion, but chiefly for their own children, rather than the Paraguayans. The Franco government ordered 36 airplanes from Italy - Caproni bombers and Fiat fighters. The first shipment recently reached Asuncion, but has been held in the customs until Paraguay was ready to make payment. But now that the Chaco war is over, the government does not need the planes, and is reported to be shopping around to find a customer for these unwanted goods.

The most interesting foreign influence in Paraguay is that of Argentina. There is no doubt that this "backwoods" republic, which has been frontier country for three centuries, falls within Argentina's economic empire. But this is not due primarily to



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heavy investments of Buenos Aires capital. Argentines are the largest landholders in the Chaco, but at that the worth of their vast tracts probably does not exceed \$5,000,000. Argentine capital is also reported in the railroads, and in the street-cars of the capital. It also controls the Mihanovitch line, owning the most important steamer fleet which links Asuncion with Buenos Aires. And it is through control of communications that Argentina has what some Paraguayans feels is a strangle-hold on their economic life. For most of Paraguay's foreign trade goes down the river, the greater part of it on Mihanovitch boats, and much of it is transhipped at Buenos Aires. If Argentina closes its ports, as happened a year ago when yellow fever was reported in Paraguay, this inland republic is cut off from the world. Hence, the authorities at Asuncion are playing with the idea of an outlet through Brazil, either by road via Iguassu to open up to tourist traffic the famous falls there; or by extending the Concepcion-Horqueta railroad line to the northeast to meet a similar projected line on the Brazilian side. But appealing as these projects look on the map, their economic utility is highly dubious. I must, however, say a word for the Iguassu Falls, which the guidebook reports are higher than Niagara and half again as wide. I flew over them on my way from Sao Paulo to Asuncion, and they are worth going a long way to see.

In addition to military dominance and some economic dislocation, the war has bequeathed Paraguay a new outlook on the future. Captain Bossano, Minister of War and graduate of M.I.T. at Boston said to me: "Now a shadow of thirty years has been lifted. In the past we have had our thoughts centered on a war which we knew we would have to fight sometime. But now we can look ahead to constructive endeavors." A professor reviewing the results of the war declared: "It changed our national morale from that of a defeated nation which believed it could do nothing - the heritage of the Five Years War - to that of a victorious people with growing assurance and self-confidence." Paraguay is talking of reconstruction. It recognizes it has to start almost from scratch. In a conversation with ex-President Ayala here in Buenos Aires, he told me that a 1935 survey of Paraguay's 130,000 farmers revealed that they possessed only 5,000 steel plows. The seed commonly used is old and run down. New seed, new implements would multiply production and economic wealth. Given peace and the help of a little foreign capital, Paraguay's leaders hope that they face toward a future of growth and promise.

November 28, 1938

3:05 pm

Present:

Brazilian Ambassador  
Mr. Taylor

Ambassador: Mr. Morgenthau, I came to thank you in the name of my Government for the conversation you had the other day with our Financial Attache. My Government highly appreciated what you had told to Mr. Penteado and they intend to take avail of your offer and you asked that he have some plans to submit to you. Anyhow, it would be very kind of you if you could tell me something about your ideas on this subject.

HM, Jr: I see. Well, my ideas are rather vague. Mr. Souza Costa was up here about two years ago and we made this arrangement with him, which your President and my President discussed when they were riding in an automobile together. It was a step towards closer cooperation, but your country has not been able to avail itself except in one instance.

Now, my thought was the heads of your Government and ours talk about closer cooperation and I thought maybe we could get down to being a little practical about it.

Ambassador: I think so.

HM, Jr: I have nothing very definite. The only possible suggestion I had was -- I don't know as much about your problems as I should -- and that is one thing I would like to be taught more about your problems, because I know very little -- would be the possibility, if you care to you might ask your Government what are the various proposals which are in the air. For instance, the head of our Export-Import Bank comes back and talks about locomotives. I don't know how many other things



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like that. But, if you could possibly get them all in your hand and then just what your Government has in mind, for instance, in the way of purchases. In order to get this thing really started, I would be delighted to sit down with you and go over these different proposals.

Now, as I say, someone says locomotives, someone says something else, but I don't know and if your Government would let you know "these are the items we are interested in; we need this; we need that," giving you the whole list of things that you have in mind that you need. Then if you had that, we could sit down and I might be able to be of some help. At least, I want to be of some help, but the only way I can start .....

Ambassador: Of course.

HM, Jr: ... is this list. "My country needs this. What can you do to help?" I want to help. If I am not successful, it is not because the heart isn't there, and before starting these conversations I spoke to President Roosevelt and he said by all means go ahead. I spoke to the Secretary of State. He said by all means go ahead and "anything that you can do will be welcomed by us".

Ambassador: I thank you very much.

HM, Jr: So that is the only thought that I had and if we could put them down -- here are the various ideas -- maybe between us we can work out some method of doing business which would be advantageous to your Government and fair to mine. But there are so many things in the air and I am a very practical person. I like to get them down, stated very simply, and then just like two business men talk it over man to man.

Ambassador: I thank you very much.

HM, Jr: And if we could do that, that would at least be a step forward. I don't know, maybe it's a question of terms and maybe credit or some-

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thing or other, which, if Mr. Taylor and I sit down with you and your people -- I always think when the will is there a way can be found.

Ambassador: I think so too and I think that our problems are not so difficult. They seem to us to be very difficult because of being a country full of possibilities, but poor. We think our difficulties are terrible, but they are not.

HM, Jr: I assure you, Mr. Ambassador, if your Government will put that information at your disposal, I would be delighted to sit down and go over it with you.

Ambassador: I thank you very much indeed and I will just cable down the precise nature of the offer and to let them know that they must present some plan in a practical way.

HM, Jr: And out of that I am sure something will come.

Ambassador: I am sure too.

HM, Jr: But I think it's time ....

Ambassador: I think the moment is absolutely opportune, the finest moment that we could imagine for such a thing and I am sure that we will reach an agreement that will be favorable both to Brazil and the United States.

HM, Jr: And anything that they have in mind, financial, commercial, whatever they have -- don't send too much at first.

Ambassador: No.

HM, Jr: But at least something which we can talk about. I asked Mr. Taylor to find out what there was and he understands there is something about locomotives. Well, there may be a dozen of things.

Mr. Taylor: There are various other things,



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in the air. Frankly, we feel that we are handicapped because we don't know what's in the minds of your Government. Some of our commercial people will come to us and say the Brazilian Government wants to do this. We don't know whether they want to do it or not.

Ambassador: I very glad personally because I have written to the President one or two letters. I have told him the same thing you are telling me. Very precise. Very clear, to make it possible for you, and for us to give you all the possible guarantees humanly possible.

HM, Jr: It's just to get a method started and after we have the method started we can turn it over to our experts, but the thing is, as Mr. Taylor puts it, so many things, all very vague, I thought maybe we could get down to being practical.

Ambassador: I think so. I think the chief problem of Brazil is the problem of transportation, because we have many kinds of riches in Brazil. We are a very rich country, but our riches are out of contact, let us say, like that with the foreign markets.

HM, Jr: Well, any time you are ready, if you will let me know, I will be delighted to sit down again.

Ambassador: I thank you very much. I was an admirer of your father when he was Ambassador to Turkey. I was Minister to Turkey and I had opportunity of reading his memoirs and they are very, very interesting and even now when I see what the Germans are doing to the Jews, we had all these troubles -- I remember that your father was Ambassador to Turkey and there was extermination of the Armenians and your father worked for these people that were killed to get assurance for the families.

HM, Jr: What years were you in Turkey?

Ambassador: I was there in 1931 and 1934.

HM, Jr: You know, the French Ambassador was

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in Constantinople. He was Secretary of the Embassy when my father was there. He was one of the younger Secretaries at that time. So it is a small world.

I hope to see you soon.  
(The Ambassador left at this point.)

\* \* \* \*

Mr. Taylor: Terrific! That's just the right approach to it, because the people, so far, have not been able to tell what the Brazilians really want to do. They have to rely on these peculiar conversations and then some locomotive manufacturer will say the Brazilian Government wants this. We don't know whether they want to do it or not and have to go through this elaborate checking.

HM, Jr: This will get it. He's smart. He gets it. I wonder what his background is.



(2-2-38)  
2 de Dezembro de 1938.

Prezado Senhor Morgenthau

1. O Dr. Eurico Penteado transmitiu-me através do meu colega das Relações Exteriores a Mensagem que, em nome de seu Governo, teve a bondade de mandar-me e ao meu Governo.
2. Antes do mais, quero ratificar os agradecimentos que enviei, em telegrama, depois de tudo ter informado ao meu Presidente.
3. A cooperação entre os nossos países era e é dificultada pela impossibilidade que tem tido o Brasil de ajustar-se, por causa de sua economia e finanças e a despeito do desejo de seu Governo, às normas que a economia e finanças americanas impõem ao conjunto da vida de seu país.
4. O oferecimento de ajuda por parte de seu país ao meu, torna mais próxima a realização da aspiração do meu Governo de uma efetiva e real comunhão de interesses e solidariedade entre os Estados Unidos e o Brasil.
5. Quando aí estive, no verão de 1937, consideramos a possibilidade de efetivar um depósito em ouro no Federal Reserve Bank, utilizando disponibilidades em divisas no mercado exterior e operando por crédito à base desse depósito, nos termos do ajuste feito.
6. As condições da economia mundial na segunda metade do

ano findo, repercutindo na vida do meu país, agravadas pelas consequências da orientação dada aos negócios de câmbio, durante a minha ausência, impediram a realização do programa e levaram-nos ao restabelecimento do controle de câmbio afim de prevenir maiores males.

7. Em Novembro de 1937, dada a atitude dos diversos países produtores, modificamos a política do café, enfraquecendo fortemente, por esse modo, o ativo de nossa balança de comércio com a importância relativa à diferença do preço-ouro, o que contribuiu para nos obrigar à suspensão temporária do atendimento dos compromissos de nossa Dívida Externa.

8. A partir de Maio deste ano começaram a se fazer sentir os resultados da política de câmbio adotada e de então para cá se tem verificado saldos em nossa balança comercial, devendo-se ainda considerar a circunstância de que os números apresentados pela estatística, no regime de monopólio cambial, indicam sempre resultados piores do que a realidade, pois a isso conduzem os processos de fraude empregados e que não se podem evitar inteiramente, por mais energica que seja a ação fiscalizadora.

9. Os fatos demonstram que nos aproximamos, sempre mais, da situação em que poderemos restabelecer a liberdade cambial, o que aliás pode ainda demorar mais do que seria de desejar. Precipitar essa solução, na situação atual, seria provocar uma queda do valor do milréis e redução ainda maior do poder aquisitivo do meu país, o que não seria nem da sua própria conveniência nem do objetivo comum que nos preocupa - maior expansão do intercâmbio entre os nossos dois países.

10. Restabelecida a situação que permita o abandono do



monopólio de câmbio e a volta ao regime de liberdade cambial, crearemos imediatamente o Banco Central de Reservas nos moldes já estudados, ficando a emissão monetária seu privilégio exclusivo.

11. Obtido um poder aquisitivo externo conveniente e economicamente ajustado - através de equilíbrio mais ou menos prolongado da balança internacional de contas - o Banco Central manterá a estabilização das taxas cambiais com as principais moedas, utilizando um "fundo de equalização" a ser paulatinamente criado, no caso de ser impossível constituir-lo por outra forma.

12. Condição fundamental para o êxito dessa política monetária é o equilíbrio orçamentário, contra o qual conspira no meu país a pressão de necessidades inadiáveis, quer para o seu reaparelhamento econômico, quer para a defesa nacional.

13. O Governo acaba de fazer estudar em cada Ministério todas essas necessidades coletivas a satisfazer, as quais foram relacionadas para serem realizadas dentro das linhas gerais de um plano sistemático que será traçado de acordo com as possibilidades.

14. A rapidez com que pudermos satisfazer tais necessidades permitirá, mais ou menos facilmente, atingir com êxito os objetivos que temos em vista e, desse modo, será altamente valiosa a cooperação do seu país, facilitando-nos a execução do programa que assegure a expansão de nossas forças econômicas. Somente por ela poderemos satisfazer as demais necessidades e aos próprios compromissos assumidos no passado.

15. A realização das compras que temos de efetuar para resolver o problema dos transportes, terrestres e marítimos, se

feitas no mercado americano, em condições de prazo longo, poderia permitir-nos considerar desde já, em conjunto, o quadro das que mais carecemos.

16. Não me parece necessário entrar em considerações para esclarecer a alta significação que teria para nós o assegurar em período breve o aumento da produção nacional.

17. A satisfação das necessidades inadiáveis através de um plano de financiamento das vendas de material, cujo pagamento se enquadrasse nas possibilidades de nossa receita, teria praticamente assegurado o equilíbrio orçamentário.

18. A criação do Banco Central, permitindo a continuação da política monetária e a defesa do valor da moeda, colocaria o Brasil em posição econômica fácil de ser defendida, dentro da mesma política internacional do seu país.

19. A diversidade de situação em que nos encontramos é que compele o meu país a buscar por outras formas os recursos de que carecemos e que precisamos obter, mesmo quando obrigados a sacrificar alguns princípios, que se harmonizam com a nossa tradição e costumes, mas que se não compadecem com a premência de necessidades que temos de satisfazer.

20. O atendimento das necessidades a que nos referimos, realizado com método, dentro das possibilidades reais de nosso orçamento, e a criação do Banco Central, para execução de uma política monetária capaz de dar estabilização relativa do poder aquisitivo do milréis, não só no mercado interno, mas no externo, constituem assim os objetivos principais de nossa política financeiro-econômica.

21. A colaboração que nos oferece o Governo de seu país é, portanto, altamente oportuna e poderá concorrer de modo de-



cisivo para o êxito do que pretendemos.

22. A política que desde Novembro vem sendo seguida em relação ao café assegura para esse produto uma situação, na pior hipótese, de estabilidade nos preços, nada autorizando a previsão de uma queda maior de cotações.

23. A importação do país não apresenta, igualmente, tendência para alta e, principalmente, se as aquisições de material a serem feitas pelo poder público obtiverem condições favoráveis de prazo.

24. Desse modo, apenas o atraso relativamente pequeno mas que existe no pagamento de mercadorias importadas - cerca de .. £ 3.500.000.-/- - influiria como elemento de baixa, no caso de se restabelecer imediatamente a liberdade no mercado cambial para a cobertura de importações.

25. Obtido que fosse um crédito, permitindo essa liquidação em prazo razoavel, estariam vencidas as dificuldades para a normalização do mercado de câmbio, devendo-se manter o controle apenas para as transferências de capitais, de lucros e outras remessas de carater não comercial.

26. Para avaliar a extensão em que podemos utilizar a operação que nos oferece para a solução das dificuldades de outra ordem e que entendemos como sendo as relativas à satisfação das necessidades de reorganização econômica e defesa nacional, é indispensavel, para a apresentação de qualquer sugestão concreta, conhecer o máximo de prazo que nos poderia ser concedido em crédito para aquisição de material. As propostas que até aqui têm sido feitas por fornecedores belgas e, principalmente, alemães, não vão além de seis anos, condições estas que, como é evidente, restringem muito a nossa capacidade de reali-

zação.

27. De caráter financeiro a última proposta que recebi foi de um grupo de bancos suíços. Foi-me apresentada pelo Senador Mollard, Presidente da Comissão de Obras Públicas do Senado Francês, que age no entanto em caráter pessoal e sem nenhuma interferência do Governo de seu país.

28. O plano foi julgado interessante e está sendo objeto de estudos pelos técnicos do meu Ministério. Em grandes linhas, consiste no seguinte:

a) - Organização de uma sociedade de capitais franco-brasileira que tomaria a seu cargo a realização das obras in dispensáveis, de caráter público e capazes de produzir renda. Os capitais na sua maior parte seriam trazidos do exterior e o Governo Brasileiro garantiria um dividendo mínimo aos acionistas;

b) - Abertura de um crédito em francos franceses para o efeito exclusivo de permitir a criação do Banco Central Emissor e promover o saneamento e estabilidade da moeda.

Em ligação com esse plano o Governo promoveria a nacionalização da dívida externa, substituindo os títulos em moeda estrangeira por títulos em moeda brasileira, em condições a serem estudadas.

29. Desde logo devo lhe esclarecer que esta conversão da Dívida Externa contraria a impressão que sempre tivemos de que o acordo das dívidas deve ser feito na base das moedas em que foram contraídas.

30. Reconhecemos a alta conveniência de promover desde logo os necessários entendimentos para esse acordo, parecendo-nos, no entanto, que ele só pode ser examinado de modo util pa



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ra os interesses reciprocos - dos portadores de titulos e do meu Governo - quando resolvidos os dois problemas a que me referi. Obtido isso, o aumento natural que terá a exportação de nossos produtos permitirá o cumprimento de um esquema razoavel.

31. Em grandes linhas apresentei nesta carta ao illustre colega as dificuldades que temos de enfrentar e os resultados que venho obtendo e, bem assim, os meios pelos quais a cooperação que o seu Governo oferece pode nos ser de alta utilidade, acelerando os resultados e aumentando o interesse reciproco das nossas relações comerciais e politicas.

Aguardando confiante a sua resposta, apresento-lhe as mais atenciosas saudações.

*Am. mt. att.*  
*A. de G. Zoloty*

Ao Exmo. Snr. Henry Morgenthau Jor.  
Secretário do Tesouro - Washington.

My dear Mr. Morgenthau:

Mr. Eurico Penteado has sent me, through your Foreign Office, the message you were kind enough to address to me and my Government, on behalf of the American Government.

2. First of all, I wish to renew the expression of my appreciation which I endeavoured to convey in my telegram after having duly informed my President.

3. The cooperation between our two countries has been hindered by the difficulty which Brazil, due to her economy and finances and in spite of her Government's desire to do so, has found to adjust itself to the rules that the American economy and finances have imposed to the life of your country.

4. The assistance that your country has offered to mine, brings nearer the fulfillment of my Government's wish for a more effective and real communion of interests and a closer solidarity between the United States and Brazil.

5. When I visited the United States, in the summer of 1937, we considered the possibility of making a gold deposit with the Federal Reserve Bank, utilizing the currency available in the foreign market and carrying out credit operations on the basis of that deposit, as agreed.

6. The world's economic conditions, on the second half of last year, which influenced the Brazilian economy, and became worse as a consequence of the exchange policy followed



followed during my absence, prevented the completion of our program and compelled us, in order to avoid greater losses, to reestablish the exchange control.

7. In November 1937, due to the attitude of the various producing countries, we modified our coffee policy, reducing, in this manner, the surplus of our trade balance to the extent of the difference of the gold price. This compelled us to temporarily suspend the payments on our foreign debts.

8. Since last May, this exchange policy has shown its results and, from then on, we have had surpluses in our trade balance, notwithstanding the fact that the figures given in the statistics, during periods of exchange control, always shows results below the reality, as result of fraud, which cannot be entirely avoided no matter how severe the control may be.

9. The facts show that we are approaching more and more the point where we will be able to reestablish the free exchange, although for this we might have to wait a little longer than desirable. To hasten such a solution, at the present time, would bring a fall on the value of the milreis and a still larger reduction of the purchasing power of Brazil. This, of course, would not only be against our own interests but against the common purpose we are endeavouring to reach - a greater development of trade between our two countries.

10. Once reestablished the situation that will allow us to give up the exchange control and return to the policy of free exchange, we will immediately create the Central Reserve Bank along the lines we have studied before, with the exclusive power to issue currency.

11. When a convenient external purchasing power, well adjusted to the economy of the country, has been obtained - through the equilibrium of the international balance of payments, during

during a more or less lengthy period of time, the Central Bank will maintain the stabilization of the exchange rates with regard to the principal currencies, using, for that purpose, an "equalization fund", which will be set up little by little, should it be impossible to organize it in any other way.

12. The fundamental condition for the success of this monetary policy is a balanced budget, against which the requirements for the economic development as well as those of the national defense press constantly upon.

13. The Government has just ordered a study in each of its branches of all the public requirements to be taken care of, which were listed to be carried out along the lines of a well ordered plan to be organized in accordance with our possibilities.

14. The promptness with which we will be able to take care of such requirements will allow us, in some way, to reach successfully the aims we have in view and, therefore, the cooperation of your country in that way will be highly valuable, facilitating the execution of a program that will assure the expansion of our economic forces. Only through such cooperation we will be able to take care of our other requirements, including the commitments of the past.

15. The purchase of all the economic equipment we need to solve our problems of land and sea transportation, if made on the American market, on long terms, would allow us to consider immediately, as a whole, those we need most.

16. I do not find it necessary to emphasize the high significance that it would mean to us the possibility to assure, within a short period, the development of the national production.

17. The possibility of meeting our immediate requirements through a financing plan for the sales of material, which would be within our capacity to pay, would practically assure



assure a balanced budget.

18. The establishment of a Central Bank allowing the continuation of the monetary policy and the defense of the value of the currency, would place Brazil in an economic position which could easily be safeguarded, in line with the international policy of your country.

19. The diversity of situation in which we find ourselves compels my country to look for, by other means, the resources which we lack and must obtain, even though by so doing we are sometimes obliged to forsake principles which are in accordance with our traditions and our habits, but are not suited to the requirements that confront us.

20. The fulfillment of the requirements we have mentioned, carried out methodically, within the real possibilities of our budget, and the creation of a Central Bank for the execution of a monetary policy that will be able to give a relative stability to the purchasing power of the milreis, not only in the internal but also in the international markets, constitute the principal aims of our financial and economical policy.

21. The collaboration that the Government of your country offers to us is, therefore, highly opportune and can decidedly contribute to the success of our purposes.

22. The policy that, since November 1937, has been followed with regard to coffee assures for that product a situation which at least will secure for it stability of prices, and there is no reason to forecast a greater fall in its value.

23. On the same way, the imports of the country do not show a tendency to increase, especially, if the purchases of economic equipment to be made by the Government will be granted by long term payments.

24. Therefore, only the relatively small arrears that exist in connection with the payment of imported merchandise - about £ 3.500.000 - would act as a lowering factor in the

in the event of it being immediately reestablished the free exchange market for the payment of imports.

25. If a credit would be obtained, allowing such liquidation in a reasonable length of time, all difficulties for the normalization of the exchange market would be overcome, in which case the control would be maintained only in relation to the transfer of capital, interests and other remittances of non-commercial nature.

26. To be able to judge to what extent Brazil can take advantage of the cooperation you have offered us for the solution of the difficulties of other nature, - and as such we understand those related to the necessity of economic reorganization and national defense, - it is indispensable, in order to present any concrete suggestion, to know the maximum length of time which could be granted us for the purchase of such economic equipment. The proposals so far have been made by Belgian, and especially German producers, allowing us a term of not more than six years, which, evidently, would curtail very much our purchasing capacity.

27. The last proposal I received of a financial nature, was from a group of Swiss bankers. It was forwarded to me by Senator Molard, President of the Commission of Public Works of the French Senate, who acted, however, in a strict personal character and without any interference from the French Government.

28. The plan was considered interesting and is under study by experts of my Department. The plan can be outlined as follows:

a) Organization of a corporation having French-Brazilian capital, which would undertake to execute the indispensable public works having remunerative character. The capital for that purpose would be recruited abroad, the Brazilian Government being called upon to guarantee a minimum dividend



dividend to the shareholder.

b) The opening of a credit in French francs for the sole purpose of permitting the creation of the Central Bank of Issue and promote the soundness and stability of the currency.

28. In connection with this plan, the Government would promote the nationalization of the external debts, replacing the bonds in foreign currency by bonds in Brazilian currency, according to conditions to be agreed upon.

29. I must, in the first place, explain to you that this conversion is contrary to the impression that we always entertained that the agreement as to the debts ought to be made on the basis of the currency contracted for.

30. We recognize the great convenience of promoting immediately the necessary negotiations for this agreement but it looks to us that it can only be examined in an useful way for the mutual interest of the bondholders and my Government, after the solution of the two aforesaid problems. Once this problem is settled, the national increase of the export of our products will permit the carrying out of any reasonable scheme.

31. I have attempted to show to my distinguished colleague the outline of the difficulties which we have to face and the results which I have so far obtained, as well as the means through which the cooperation offered by your Government may be very useful to us, speeding the results and increasing our mutual relations both commercial and political.

Awaiting confidently your reply and with my best personal regards,

Sincerely yours,

His Excellency Henry Morgenthau Jor.,  
Secretary of the Treasury - Washington, D.C.



THE SECRETARY OF COMMERCE  
WASHINGTON

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35

December 29, 1938

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

Here is the memorandum you spoke  
to me about yesterday.

Very sincerely yours,

  
Secretary of Commerce

RECEIVED  
Treasury Department  
JAN 18 1939  
Division of  
Monetary Research



DEPARTMENT OF COMMERCE  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE  
WASHINGTON

*Brazil* 26

December 29, 1938.

MEMORANDUM:

To: Assistant Secretary Patterson.

From: F. H. Rawls, Acting Director,  
Bureau of Foreign and Domestic Commerce.

Subject: Economic Data Concerning Brazil for the General  
Information of Secretary Hopkins.

Brazil is the largest South American country in area and population. In size it slightly exceeds that of the United States, not including Alaska. The population is estimated at approximately 45,000,000, of which 75 percent live in rural areas. The standard of living is low, and probably not more than 15 percent of the people are able to purchase anything beyond meager living necessities.

Coffee has been Brazil's leading export product for approximately a century. During the decade 1924-1933, coffee accounted for 71 percent of the total value of exports. Owing to the rise of cotton cultivation, the relative importance of coffee has trended downward for several years and in 1937 it accounted for only 42 percent of the total value of exports. Cotton was the second largest export in 1937, accounting for 19 percent of the total. Cacao is also an important item of export.

In recent years Brazil has made a strong effort at diversification both in agriculture and in industry. Manufacturing is confined principally to the simpler types of consumer goods, but some headway has been made with quality articles and with heavy industry. The progress of diversification is of special interest on account of its effect on the character of the foreign trade and its distribution by countries. With the decline in the relative importance of coffee, the United States has taken a smaller proportion of Brazil's exports while Europe, particularly Germany, has taken a larger proportion. Nevertheless, the United States is still by far Brazil's best customer, taking 36 percent of her total exports in 1937. Germany was second with 17 percent.

The United States was also in first place in Brazil's import trade from the time of the War down to 1936, when Germany took first rank by a slight margin, according to the official Brazilian statistics. Germany was also slightly in the lead in 1937. However, if the Brazilian statistics are adjusted to allow for a 25 percent overvaluation of imports from Germany, the United States would be shown in first place for these two years.

During the three years 1935-37, the average total value of Brazilian imports was \$267,300,000, of which the United States furnished \$61,100,000 (22.8 percent). The principal items involved in this trade are shown in the attached circular entitled "Trade of the United States with Brazil".

The average value of Brazilian exports during the period 1935-37 was \$312,300,000, of which \$118,900,000 (38.1 percent) went to the United States. Thus exports to the United States exceeded imports from us by \$57,800,000.

Brazil normally has a large surplus of exports, which provides exchange to cover debt services, remittances of profits on foreign investments, etc. However, Brazil was in partial default on its foreign obligations down to November 1937 when all debt service was suspended. Remittances of profits and dividends have also been restricted through exchange control measures. Imports were unusually heavy during the first half of 1938, while the value of exports declined, reflecting the declining world market prices for Brazilian products, with the result that there was an import balance during the January-June period of \$11,234,465.

  
F. H. Rawls,  
Acting Director.



DEPARTMENT OF COMMERCE  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON

There is the answer  
to your question.  
Sincerely,  
RM

## DEPARTMENT OF COMMERCE

38

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

WASHINGTON

December 29, 1938.

## MEMORANDUM:

To: Assistant Secretary Patterson.

From: F. H. Rawls, Acting Director,  
Bureau of Foreign and Domestic Commerce.

Subject: What Brazil Needs from the United States.

Brazil in recent years has been making a strong effort to achieve diversification of production through new crops and the promotion of manufacturing. Emphasis is also being placed upon the improvement of transportation and communication facilities, both as a means of bringing about a greater degree of national unity and for the purpose of opening up undeveloped resources. The Government has recently formulated a Five-Year Economic Plan, which calls for large outlays for communications equipment, industrial machinery, and other forms of capital goods. No official statement of the probable amounts of these goods which will be required has been issued by the Brazilian Government, but on the basis of estimates appended it appears likely that upwards of \$50,000,000 <sup>Additional</sup> might be used to advantage during 1939.

Principal capital goods needed are as follows:

Railroad materials equipment and supplies	\$25,000,000
Industrial machinery	11,000,000
Iron and steel	4,000,000
Motor vehicles	2,500,000
Transport planes	1,000,000
Airport construction	2,000,000
Army planes	3,200,000
Total	<u>\$48,700,000</u>

Furthermore, if it were possible to regain even part of our lost markets in Brazil for wheat, coal, office appliances and many other goods, a very considerable increase in trade would result.

Detailed information is appended.



RAILWAY EQUIPMENT

Brazil has long been one of our leading foreign markets for railway equipment. During the 25-year period 1910-1934, about 38 percent of Brazil's total imports of railway equipment came from the United States. The Five-Year Economic Plan puts particular emphasis on the improvement of transportation and communication facilities. In an area larger than the United States, Brazil has only about 21,000 miles of railways and present facilities are inadequate to handle the demands made upon them. It is estimated that approximately \$25,000,000 is needed in the immediate future for the purchase of locomotives, rolling stock and construction materials. This estimate does not include labor costs, which it is assumed would be met by the Brazilian Government. Furthermore, the figures relate only to the needs for rehabilitating the present net. New construction designed to tap undeveloped resources, particularly iron, manganese, nickel and other mineral deposits, would involve expenditures of far greater magnitude.

INDUSTRIAL MACHINERY

Brazil's imports of industrial machinery from the United States have been greatly reduced in recent years by the diversion of orders to Germany - this despite the fact that the United States is the logical supplier by reason of world leadership in technology of the equipment involved. If exchange were readily available this business which has averaged approximately \$4,800,000 in recent years, should rise to at least \$7,500,000 annually.

In addition to this current business, Brazil has need of additional equipment for the economic development of the country, for which capital is now lacking. Purchases from the United States for these purposes might be approximately as follows:

Road building machinery	\$ 2,000,000
Construction, pumping and other equipment for irrigation program	3,000,000
Mining machinery for developing Itabira iron ore deposits	2,500,000
Vegetable oil extracting and processing machinery	1,000,000
	<u>\$ 8,500,000</u>

Total machinery needs to be furnished by the United States \$16,000,000, a net increase of \$11,200,000.

IRON AND STEEL PRODUCTS

Consumption of iron and steel has shown an upward trend for some years, owing to its greater use in connection with building construction and to the demand from numerous secondary metal-working industries which have sprung up in recent years. Domestic production of pig iron, steel and rolled goods is also expanding, but local plants are able to supply only a part of the total demand. Imports of the major items of iron and steel in 1937 amounted in value to about \$40,000,000, of which the United States furnished approximately one-fourth. The inauguration of extensive economic developments would entail an additional demand for approximately \$4,000,000 of iron and steel products which the United States is in a position to supply.

MOTOR VEHICLES

Brazil has steadily increased its purchases of American motor vehicles since the low point reached in 1932, but American participation in the Brazilian markets has declined continuously from 98 per cent in 1934 to 87 percent in the first 9 months of 1938. In 1938 these purchases will approximate only 30 percent of the 1929 peak. More automotive highway transport equipment is a pressing need in Brazil and this need will be supplied practically 100 percent from the United States providing means can be found to overcome German trade practices. Under these conditions, we might expect the following increased American automotive business in Brazil during 1939 as measured against our 1938 volume:

	<u>Number</u>	<u>Value</u>
Passenger cars	1,000	\$ 590,000
Trucks and busses	700	390,000
Assembly parts		500,000
Total		<u>\$1,480,000</u>

The automotive replacement parts and accessory business would presumably show a proportionate advance, possibly by \$1,000,000, because this class of business has been seriously affected by fluctuating exchange rates and the delays in effecting dollar settlements.

AERONAUTICAL EQUIPMENT

Because of the time and expense involved in providing more extensive access to the Brazilian hinterland by land transport, aviation development is also a matter of prime consideration to the Brazilian Government, as a part of its program of national unification. For some time there has been under consideration a supplementary air transport network which would be operated by the Brazilian army. It is well known that American planes are preferred for these proposed



operations. Our estimate of the Brazilian requirements for American transport planes for this purpose are:

Year	under 12-place	12 to 25 place	over 25- place	Total	Approximate total cost
1939	17	5	2	24	\$ 1,000,000
1940	20	6	2	28	1,100,000
1941	34	4	2	40	1,250,000

To make possible this more extensive and efficient operation of schedule transport services considerable airport construction (by American engineers), and airport-airways equipment (lights, hangars, radio aids to flying, etc.) would be needed. Such American services and materials as could be used for these purposes might cost about \$2,000,000 annually.

It is believed that Brazil would like to modernize, with American flying equipment, her army air corps just as Argentina has done recently. Were American credits available to finance government military purchases, there is little question but that all of the business would go to American suppliers. However, because of easier terms and the possibility of dealing on a barter basis, an important part of Brazil's military plane requirements is now covered in Germany. There follows an estimate of Brazil's military aircraft needs:

Year	Training	Other	Total	Approximate total cost
1939	80	60	140	\$ 3,200,000
1940	90	110	200	5,300,000
1941	60	180	240	7,800,000

Civil aircraft, other than transport planes, which it is estimated Brazilians would buy, preferably from American sources, if dollar exchange were readily available at a satisfactory rate, and convenient credit terms could be arranged, are calculated as follows:

Year	4-place or over	5 to 10 place	Over 10- place	Total	Approximate total cost
1939	12	—	—	12	\$ 60,000
1940	18	2	—	20	140,000
1941	12	10	2	24	350,000

#### COAL

Brazil currently consumes around 2 to 2½ million tons of bituminous coal, of which 2/3 is imported. In 1926 the greater part of these imports were American coal worth about \$10,000,000. In 1937 our coal exports to Brazil were approximately 190,000 tons, valued at \$900,000, while the bulk of the trade was divided about equally between Great Britain and Germany. Although considerable British capital is invested in railways, gas plants and electric power plants in Brazil, there are other public utilities, the State railways and Federal shipping lines which might be buyers of American coal under favorable conditions.

CONSUMER GOODS

Although Brazil's principal requirements for United States merchandise are in the capital goods field, particularly in connection with the development of the country's vast resources, there are a number of instances in which the present competitive situation regarding consumer goods deserves special consideration.

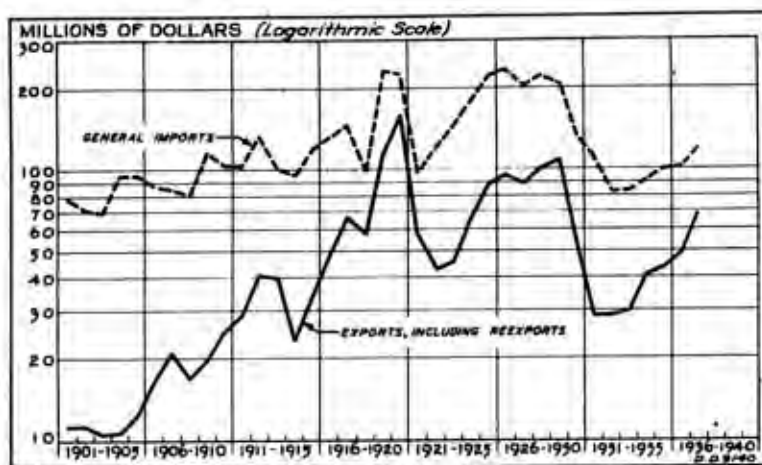
An important example is the market for breadstuffs, which is one of the largest items of Brazil's import trade. Only 13 per cent of Brazilian consumption of wheat and wheat flour is supplied by domestic production. Most of our market from Rio de Janeiro south was lost to Argentina before the World War, but American flour (and to some extent wheat) was preferred in the northeastern states prior to 1931. In 1926 Brazil's imports of breadstuffs from the United States amounted to over \$18,000,000. Since that year Brazil has developed its milling industry, and Argentina wheat has largely replaced American flour.

Brazil normally sells considerably more to the United States than it buys from this country. This export surplus enables Brazil to buy its breadstuffs elsewhere, principally in Argentina. On the other hand, Argentina normally buys more from the United States than it sells to this country. Recently, Argentina has been insisting upon a policy of bilateral-balancing, that is, that imports from the United States must not exceed in value its exports to the United States; and restrictions have been placed on imports from the United States. However, Argentina has an export balance in its trade with Brazil, owing to large sales of wheat. Argentina should not expect "to have its cake and eat it, too". Unless it is willing to admit United States' goods in excess of U. S. purchases in that country, it cannot consistently demand that Brazil buy Argentine breadstuffs in preference to American wheat or flour.

The market for office machines also deserves special consideration. Prior to the onset of subsidized German exporting, the United States supplied 80 percent of the Brazilian market for office machines, but this proportion has subsequently declined to around 50 percent. Brazil's annual requirements average about \$4,000,000, of which the normal share of the United States is \$3,000,000. Under normal competitive conditions the United States could also increase its share of the Brazilian market for scientific instruments, photographic and projection goods, and miscellaneous specialties - markets, which, in the aggregate, amount to about \$6,000,000.



# TRADE OF THE UNITED STATES WITH BRAZIL



Note - 1937 data are preliminary and subject to revision.

Prepared by DIVISION OF FOREIGN TRADE STATISTICS  
and  
LATIN AMERICAN SECTION of DIVISION OF REGIONAL INFORMATION  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE  
DEPARTMENT OF COMMERCE  
Washington, D.C.

There has been a steady climb in the value of United States trade with Brazil since 1933, the advance being more pronounced in exports than in imports. At the same time, the position of Brazil among the various world markets for American products has risen from 1.8 percent of our total exports in 1933 to 2.1 percent in 1937. United States imports from Brazil, on the other hand, have receded, in their relative position in our world imports, from 5.7 percent of total imports in 1933 to 3.9 percent in 1937.

#### Exports

United States exports to Brazil in 1937 were valued at \$68,631,000, an advance of 131 percent over the \$29,728,000 valuation for the depression year 1933. The growth in these four years reflects the steady betterment which has taken place in Brazilian economic conditions, and the improved buying power of the people. Expansion was especially marked in 1937, when, according to United States statistics of exports by months, there was a steady increase in shipments to Brazil, from \$4,162,000 in January to \$7,879,000 in December.

Although competition in the Brazilian market for certain American goods continued severe during 1937, purchases by Brazil in the United States were facilitated during most of the year by the availability of sufficient exchange for the payment thereof. Strict exchange control was reestablished in December.

Compared with the pre-depression year 1929, United States exports to Brazil of finished manufactures, which constitute over 80 percent of the total trade, declined in value from \$88,254,000 to \$55,112,000 in 1937, but there was a considerable revival in shipments of products in this category in 1937 as compared to 1936, the total value rising by \$14,526,000. Exports of some kinds of finished manufactures to Brazil have been adversely affected by that country's increasing production of goods of common consumption, and by the trend toward importation of semi-manufactures and crude materials for further elaboration within the country. This is reflected in the fact that semi-manufactures constituted 14.5 percent of United States exports to Brazil in 1937 as against 10.5 percent in 1929.

Owing principally to the decline in flour shipments, the manufactured foodstuffs group amounted to only 1.1 percent of the whole in 1937 as compared to 5.8 percent in 1929.



### Trade in Many Export Commodities Rose in 1937

Machinery and vehicles constitute the largest single group in United States exports to Brazil. These items amounted to \$33,112,000 in 1937, as compared with \$24,123,000 in 1936, a gain of 37.3 percent. A little over two-fifths of this group was composed of automobiles and parts and accessories. Agricultural machinery and radio apparatus likewise showed an important gain in this period, the former from \$840,000 to \$1,452,000, and the latter from \$2,023,000 to \$2,503,000. Aircraft and parts increased in value from \$551,000 in 1936 to \$1,655,000 in 1937. Exports of petroleum products and coal increased, in response to the enlarged demand for industrial fuel. Exports of oil-mill machinery rose from \$79,000 in 1936 to \$323,000 in 1937, and exports of cotton gins continued large, being over \$600,000 in both years. On the other hand, exports of American textile machinery declined in value, from \$599,000 in 1936 to \$280,000 in 1937, and there was also a drop in our shipments of generators and parts. Most other items in the group of electrical machinery and apparatus recorded gains.

Shipments of metals and manufactures (excluding machinery and vehicles) including such important items as tinplate, terneplate, and tappers' tin, wire and manufactures, railway track material, iron and steel sheets, plates, bars and rods, and tubular products, increased in value from \$7,148,000 in 1936 to \$11,834,000 in 1937.

### Imports

The character of United States imports from Brazil has undergone a considerable change since pre-depression years. In 1929, crude foodstuffs represented 90.7 percent of the whole, whereas in 1937 they made up 73.3 percent. On the other hand, the relative position of crude materials rose from 8.7 percent to 21.7 percent, and of manufactured foodstuffs from 0.3 percent to 3.3 percent. The principal factor in this change has been the lower prevailing prices for coffee, which has continued to be shipped to the United States in approximately the same volume as a decade ago (the five year average, 1926-30, was 1,000,000,000 pounds, as compared with an average of 955,000,000 pounds for 1936 and 1937), but the valuation has declined from \$158,029,000 in the earlier period to \$58,394,000 for the later. In contrast, a number of items classed as manufactured foodstuffs, such as canned meats, cottonseed oil, and bran, have risen sharply, both in volume and value. The notable increase in importance of crude materials indicated has been featured by larger imports from Brazil of such products as castor beans, cattle hides, babassu and other palm nuts and kernels, carnauba wax, raw cotton, cabinet wood, and manganese ore.

Imports from Brazil in 1937 on a Higher Level  
than in 1936

In comparing the trade in Brazilian products in 1937 with 1936, it is seen that coffee, which constitutes approximately three-fifths of the total, declined in volume from 1,035,000,000 pounds in the earlier year to 876,000,000 pounds in the later period, but that improved prices carried the aggregate value from \$66,210,000 to \$70,578,000. A similar situation existed with regard to certain other vegetable food products and beverages, such as cocoa and Brazil nuts, both of which declined in volume but increased in value. Among inedible vegetable products (excluding fibers and wood), which in value made up 13 percent of all imports for consumption from Brazil, crude rubber registered an outstanding gain, increasing in volume from 8,972,000 pounds to 12,866,000 pounds, and in value from \$1,298,000 to \$2,314,000. Oil nuts and kernels benefited from improved market prices despite a lower volume of shipments to this market in 1937, as compared with 1936 of such outstanding items as castor beans and babassu nuts and kernels. Our imports of inedible animal products, 88 percent of which are made up of hides and skins, rose in value from \$6,764,000 in 1936 to \$8,868,000 in 1937.

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UNITED STATES EXPORTS TO AND IMPORTS FROM  
BRAZIL, 1911-1937

(Value in thousands of dollars)

Year	Exports, including Reexports			General Imports		
	Value	Percent of Total U.S. Exports	Value	Percent of Total U.S. Imports	Free of Duty Value	Percent
1911	28,854	1.4	103,454	6.8	102,149	98.7
1912	40,592	1.7	132,957	7.3	132,767	99.9
1913	39,901	1.6	100,948	5.6	100,889	99.9
1914	23,276	1.1	95,001	5.3	93,145	98.0
1915	33,953	1.0	120,099	6.8	117,377	97.7
1916	47,669	.9	132,067	5.5	128,708	97.5
1917	66,153	1.1	145,275	4.9	138,500	95.3
1918	57,391	.9	98,038	3.2	93,740	95.6
1919	114,696	1.4	233,571	6.0	225,734	96.6
1920	156,740	1.9	227,588	4.3	199,269	87.6
1921	58,106	1.3	96,326	3.8	92,596	96.1
1922	43,247	1.1	120,383	3.9	116,938	97.1
1923	45,534	1.1	143,234	3.8	136,715	95.4
1924	65,207	1.4	179,337	5.0	174,174	97.1
1925	87,451	1.8	221,572	5.2	214,338	97.0
1926	95,449	2.0	235,307	5.3	228,172	97.0
1927	88,737	1.8	203,027	4.9	198,179	97.6
1928	100,104	2.0	220,701	5.4	217,054	98.3
1929	108,787	2.1	207,686	4.7	203,184	97.8
1930	53,809	1.4	130,854	4.3	126,974	97.0
1931	28,579	1.2	110,212	5.2	105,982	96.2
1932	28,600	1.8	82,139	6.2	80,060	97.5
1933	29,728	1.8	82,628	5.7	79,569	96.3
1934	40,375	1.9	91,484	5.5	87,823	96.0
1935	43,618	1.9	99,585	4.9	90,957	91.3
1936	49,019	2.0	102,004	4.2	90,767	89.0
1937	58,631	2.1	120,539	3.9	104,953	87.0

7113

MONTHLY TRADE OF THE UNITED STATES WITH  
BRAZIL, 1935-1937

(Thousands of dollars)

Month	Exports, including Reexports			General Imports		
	1935	1936	1937	1935	1936	1937
January	3,551	3,980	4,162	8,156	8,626	11,551
February	3,534	4,213	3,977	9,249	10,781	10,999
March	4,125	4,108	5,319	8,698	9,469	10,545
April	4,034	3,704	4,770	7,610	7,186	10,003
May	3,158	4,475	5,927	7,954	5,923	8,181
June	3,474	3,757	4,754	6,310	6,980	10,642
July	3,733	3,560	5,947	8,620	7,241	9,694
August	3,596	3,557	5,627	7,627	7,682	10,799
September	3,196	3,568	5,697	8,028	9,455	10,478
October	3,414	5,033	7,747	9,557	8,758	8,670
November	4,537	4,857	6,814	8,510	8,466	9,898
December	3,276	4,237	7,879	9,467	11,466	9,179
TOTAL	43,618	49,019	68,531	99,685	102,004	120,639

TRADE OF THE UNITED STATES WITH BRAZIL,  
BY ECONOMIC CLASSES, 1929 and 1937

(Values in thousands of dollars)

Class	1929		Percent:Ratio 1/ of :Brazil : 1937		Percent:Ratio 1/ of :Brazil : 1937	
	Total	% of Total	Total	% of Total	Total	% of Total
<b>EXPORTS (U. S. Mds.)</b>						
Total	108,503	100.0	2.1	68,271	100.0	2.1
Crude materials	1,226	1.1	.1	1,273	1.9	.3
Crude foodstuffs	1,375	1.3	.5	1,274	1.9	1.3
Manufactured foodstuffs 2/	5,287	5.8	1.3	746	1.1	.4
Semimanufactures	11,361	10.5	1.6	9,866	14.5	1.5
Finished manufactures	88,254	81.3	3.5	55,112	80.7	3.4
<b>IMPORTS 3/</b>						
Total	207,586	100.0	4.7	119,627	100.0	4.0
Crude materials	18,027	8.7	1.2	25,928	21.7	2.7
Crude foodstuffs	188,396	90.7	35.0	87,644	73.3	21.2
Manufactured foodstuffs 2/	577	.3	.1	3,980	3.3	.9
Semimanufactures	304	.1	4/	1,394	1.2	.3
Finished manufactures	381	.2	4/	583	.5	.1

1/ Percent of United States total of each economic class exported to or imported from Brazil.

2/ Includes wines, spirits and other beverages.

3/ General imports, 1929, and "Imports for Consumption", 1937.

4/ Less than one-tenth of one percent.



PRINCIPAL COMMODITIES AND GROUPS OF COMMODITIES IN EXPORTS  
FROM THE UNITED STATES TO BRAZIL, 1936-1937

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Commodity and Group	Quantity		Value (1,000 dollars)	
	1936	1937	1936	1937
Exports, including reexports, total .....	---	---	49,019	68,631
Vegetable food products and beverages, total .....	---	---	1,346	1,956
Oatmeal, groats and rolled oats .....	1,282	839	136	93
Wheat .....	---	356	---	392
Wheat flour .....	69	69	345	431
Apples, fresh .....	134	112	263	299
Grapes, fresh .....	1,185	1,830	95	136
Pears, fresh .....	5,225	4,546	263	284
Walnuts .....	828	1,004	71	98
Other vegetable food pro- ducts and beverages .....	---	---	174	233
Vegetable products, inedible, except fibers and wood, total .....	---	---	1,951	2,552
Automobile tires (casings) .....	75,545	77,933	798	943
Automobile inner tubes .....	43,690	54,483	63	65
Rosin .....	60,461	62,413	600	953
Other vegetable products, inedible	---	---	490	561
Textile fibers and manufactures, total .....	---	---	552	766
Corded tire fabric .....	320	327	78	94
Silk tram, organzine and hard twists .....	24,134	38,667	67	122
Spun silk .....	40	42	112	133
Felt base floor coverings .....	241	286	68	77
Other textile fibers and manufactures .....	---	---	227	340
Wood and paper, total .....	---	---	445	931
Greaseproof and waterproof paper .....	155	296	54	131
Tissus and crepe paper .....	1,085	2,951	66	229
Other wood and paper .....	---	---	325	571

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Commodity and Group	Quantity		Value (1,000 dollars)	
	1936	1937	1936	1937
Nonmetallic minerals, total .....	---	---	8,954	11,891
Bituminous coal .....1,000 tons..	98	188	454	908
Crude petroleum .....bbl..	9,254	118,341	29	239
Gasoline and other petroleum motor fuel .....1,000 bbl..	1,157	1,403	3,601	4,736
Mineral spirits .....1,000 gal..	13	672	82	111
Illuminating oil .....1,000 bbl..	601	442	2,050	2,303
Gas oil and distillate fuel oil .....do....	51	69	105	151
Lubricating oil .....	---	---	1,650	2,370
Lubricating greases ....1,000 lb..	1,882	2,467	97	135
Paraffin wax .....do....	2,271	2,334	86	87
Cement, Portland .....bbls..	16,044	16,099	64	68
Other nonmetallic minerals .....	---	---	727	883
Metals and manufactures, except machinery and vehicles, total .....	---	---	7,148	11,834
Iron and steel bars and rods .....1,000 lb..	3,050	8,433	90	304
Iron and steel plates .....do....	2,426	12,457	55	369
Iron and steel sheets .....do....	22,094	41,623	716	1,651
Tinplate, terneplate and taggers' tin .....do....	41,794	66,122	1,858	3,391
Structural iron and steel: Structural shapes .....tons..	1,839	3,965	130	160
Plates, fabricated, punched or shaped .....1,000 lb..	48	2,534	2	122
Railway track material: Rails .....tons.,	22,028	24,597	756	1,099
Rail joints, splice bars, fish-plates and tie- plates .....1,000 lb..	3,982	6,878	101	255
Switches, frogs and crossings .....do....	842	1,544	63	121
Tubular products .....	---	---	193	323
Wire and manufactures ..1,000 lb..	29,294	31,081	702	1,138
Axes, brood and hand .....dos..	19,457	28,253	123	192
Files and ramps .....1,000 dos..	166	207	221	207
Copper rods .....1,000 lb..	9,461	3,369	854	469
Brass and bronze .....	---	---	82	211
Other metals and manufactures .....	---	---	1,202	1,822
Machinery and vehicles, total .....	---	---	24,123	33,112
Electrical machinery and apparatus: Generators and parts .....	---	---	300	194
Transforming and converting apparatus .....	---	---	220	315



Commodity and Group	Quantity		Value (1,000 dollars)	
	1936	1937	1936	1937
<b>Machinery and vehicles - Continued.</b>				
<b>Electrical machinery and apparatus - Continued:</b>				
Transmission and distribution apparatus .....	---	---	256	414
Motors, starters and controllers .....	---	---	305	457
Electric refrigerators and parts	---	---	1,191	1,235
Household .....number..	11,530	12,291	894	971
Radio apparatus .....	---	---	2,023	2,503
Telephone apparatus .....	---	---	374	440
Electric metal conduit outlets and switch boxes .....	---	---	87	146
<b>Industrial machinery:</b>				
Steam locomotives, parts and accessories .....	---	---	109	169
Construction and conveying machinery .....	---	---	540	759
Mining and quarrying machinery .	---	---	199	210
Sheet and plate-metal working machines .....	---	---	63	134
Textile machinery .....	---	---	699	280
Sewing machines .....number..	2,425	6,389	104	208
Sewing machine parts .....	---	---	195	194
Air-conditioning equipment .....	---	---	72	152
Oil-mill machinery .....	---	---	79	323
Cotton gins, presses and parts .	---	---	663	632
Air compressors .....number..	227	322	114	190
<b>Office appliances:</b>				
Accounting and calculating machines .....number..	1,974	3,099	571	911
Cash registers .....do...	1,456	2,657	162	324
Typewriters .....do...	8,288	12,820	465	715
Printing and bookbinding machinery .....	---	---	321	529
Agricultural machinery, total.....	---	---	840	1,452
Horse and power plows ..number..	8,445	13,040	114	222
Tractors .....do....	245	434	383	658
Parts and accessories for tractors .....	---	---	76	124
<b>Automobiles, parts and accessories, total .....</b>				
Motor trucks and busses .....number..	5,904	6,757	2,983	3,653
Passenger automobiles .....do....	5,815	7,540	3,328	4,440
Parts for assembly .....	---	---	2,108	2,681

Commodity and Group	Quantity		Value (1,000 dollars)	
	1936	1937	1936	1937
Automobiles, parts and accessories - Continued.				
Engines (motor truck, bus and passenger car) .....	---	---	510	984
Automobile service appliances ....	---	---	163	247
Aircraft and parts .....	---	---	551	1,656
Landplanes .....number..	13	44	84	809
Railway car parts, except axles and wheels .....	---	---	714	809
Other machinery and vehicles .....	---	---	2,420	3,779
Chemicals and related products,				
total .....	---	---	1,825	2,346
Coal tar colors, dyes and stains .....1,000 lb..	228	184	162	158
Hydroxide (caustic soda) ...do....	16,353	16,908	303	279
Ready-mixed paints, stains and enamels .....1,000 gal..	101	123	186	215
Other chemicals and related products .....	---	---	1,174	1,694
Miscellaneous articles, total .....	---	---	2,675	3,233



PRINCIPAL COMMODITIES AND GROUPS OF COMMODITIES IN IMPORTS  
INTO THE UNITED STATES FROM BRAZIL, 1936-1937

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Commodity and Group	Quantity		Value (1,000 dollars)	
	1935	1937	1936	1937
Imports for Consumption, total .	---	---	102,757	119,527
Animal products and animals, edible, total .....	---	---	135	1,048
Canned beef, including corned beef .....1,000 lb..	1,243	9,786	92	942
Animal products and animals, inedible, total .....	---	---	6,764	8,868
Hides and skins, total.....	---	---	5,940	7,819
Cattle hides .....1,000 pieces..	459	465	1,793	2,484
Goat and kid skins .....do.....	4,699	4,661	2,682	3,008
Deer, buck or doe skins.do.....	292	328	323	485
Undressed furs .....	---	---	194	318
Beeswax, crude .....1,000 lb..	1,205	1,598	268	420
Other animal products and animals, inedible .....	---	---	362	311
Vegetable food products and beverages, total .....	---	---	81,339	90,576
Bran, shorts and other by-product feeds .....	21,289	22,174	340	445
Brazil or cream nuts ....1,000 lb..	28,978	19,958	2,676	2,947
Cottonseed oil .....	37,108	44,871	2,107	2,468
Cocoa or cacao beans .....do....	196,168	184,601	9,620	13,905
Coffee .....million lb..	1,035	876	66,210	70,578
Tonka beans .....1,000 lb..	395	293	234	197
Other vegetable food products and beverages .....	---	---	152	36
Vegetable products, inedible, except fibers and wood, total .....	---	---	11,817	15,471
Crude rubber .....1,000 lb..	8,972	12,866	1,298	2,314
Gutta balata .....do....	847	677	141	132
Castor beans .....do....	145,374	144,395	3,212	3,560
Palm nuts and palm nut kernels .....	9,460	22,118	200	918
Babassu nuts and kernels ....do....	59,022	54,792	1,935	2,727
Carnauba wax .....	12,465	13,911	4,278	4,800
Oiticica oil .....	2,887	3,631	315	377
Rosewood oil .....	112	174	120	202
Other vegetable products, inedible.	---	---	318	421

Commodity and Group	Quantity		Value (1,000 dollars)	
	1936	1937	1936	1937
Textile fibers and manufactures,				
total .....	---	---	682	1,311
Cotton, raw .....1,000 lb..	368	4,787	62	740
Cotton linters .....do....	8,901	6,771	394	329
Cotton waste .....do....	3,123	2,318	141	99
Other textile fibers and manufactures .....	---	---	85	143
Wood and paper, total .....	---	---	270	311
Cabinet wood, sawed, mahogany .....M ft..	1,935	2,236	124	169
Nonmetallic minerals, total .....	---	---	453	703
Brazilian pebble, unmanu- factured .....1,000 lb..	21	30	9	62
Mica, unmanufactured .....do....	129	257	36	60
Diamonds, unset, and miners', glaziers' and engravers' ..carats..	26,954	118,165	387	560
Metals and manufactures, except machinery and vehicles, total .....	---	---	1,010	841
Tanks or vessels for holding gas, liquid or other materials..number..	48,492	61,895	59	126
Manganese ore ....1,000 lb. (manganese content)..	117,073	79,532	872	897
Titanium ore, rutile ....1,000 lb..	995	1,323	37	67
Other metals and manufactures .....	---	---	42	51
Dried blood .....tons..	558	1,368	24	80
All other articles .....	---	---	273	318



**DEPARTMENT OF COMMERCE**  
DANIEL C. ROPER, SECRETARY

**BUREAU OF FOREIGN AND DOMESTIC COMMERCE**  
ALEXANDER V. DYE, DIRECTOR

**THE CHANGING CHARACTER  
OF AMERICAN EXPORTS  
TO BRAZIL**

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Ackerman, Rio de Janeiro

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January 16, 1937.

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Note on CURRENCY: Conversions from contos of reis to dollars have been made at the average annual exchange rates given in various annual reports of the Bank of Brazil, which are as follows: 1926, 7\$001; 1927, 8\$457; 1928, 8\$363; 1929, 8\$478; 1930, 9\$267; 1931, 14\$267; 1932, 14\$133; 1933, 12\$702; 1934, 12\$078; and 1935, 17\$364. In Table No. 1, for the years 1931-1935, the figures given in recent issues of "Comercio Exterior" are shown for the total value in dollars of exports and imports; these figures differ slightly from the results obtained by converting the value in contos at the rates published by the Bank of Brazil.

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### Introduction

Some notable changes have occurred during the last decade in the character of United States' trade with Brazil, particularly in the nature and competitive position of exports to Brazil. As many of these changes are the result of the influence of emergency measures taken by the Brazilian Government for the purpose of alleviating the depression, a review of Brazil's financial and commercial policies in recent years may first be given. These policies will be discussed under the four headings: (1) Exchange control, (2) Taxation increases, (3) Diversification of agriculture, and (4) Treaties and Commercial arrangements.

### Exchange Control

Most of the currency in circulation in Brazil has been inconvertible for many years. Legislation enacted during 1926 provided for the accumulation of a Stabilization Fund against which notes redeemable in gold would be issued to replace gradually the inconvertible notes then in circulation. By the end of 1929 this fund had reached a sum of approximately \$30,000,000, representing about 45% cover for the notes in circulation. The rapid decline in world prices of Brazilian products and the curtailment of foreign credits, forced the Government to decide whether to permit its exchange to decline rapidly or to support it by the use of its gold reserves. It adopted the latter course and by the early part of 1931 had entirely exhausted this reserve. To minimize exchange fluctuations and prevent a decline governed by speculative rather than economic factors, it decreed the creation of an official Exchange Control Office through which all exchange transactions passed. Until September 1934, all foreign exchange arising from exports, investments or other credits had to be sold to this Exchange Office at rates fixed daily, which in turn made available for the payment of merchandise imports such exchange as exceeded the requirements of the Government. Restrictions were relaxed in that month whereby merchandise imports were payable at

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the official rate for 40% of their value and 60% from exchange acquired in the open market, the funds for the open market being supplied from the excess values arising from exports beyond certain stipulated requirements of the exchange office. In February 1935, restrictions were further relaxed so that the milreis might find a level related to supply and demand, and since that time imports are payable in foreign exchange acquired at open market rates and only 30% of the proceeds arising from certain exports are acquired by the Exchange Office at the official rate, to provide funds at a low rate of exchange for the service on external public debt, and other Government necessities.

During the period when exchange for payments could only be secured by purchases from the Exchange Control Office, the sums available were insufficient to cover demands, with the result that a substantial backlog of commercial credits was accumulated. In 1933, agreements were entered into with British, American and other creditors, whereby exchange for the liquidation of accumulated indebtedness arising from merchandise imports was to be made available by monthly payments over a period of five years. There subsequently occurred a further blockade of commercial credits and additional agreements along the same general lines were entered into during 1936. By this control the Government checked violent fluctuations in the milreis, prevented imports from expanding so rapidly as to bring about an adverse trade balance, and forced foreign suppliers to accord long term credits at a time when direct foreign borrowing was impossible.

The free market value of the milreis has declined approximately 72% in relation to gold, or about 50 cents in relation to the dollar, i.e., it is now worth approximately \$3.06 as compared to approximately \$0.12 cents in 1929. Since the establishment of the free market there has occurred an improvement in the sentiment of foreign suppliers, which has led to the resumption of term credits to Brazilian purchasers. Cash was demanded so long as control over remittances remained in force.

#### Taxation Increases

To increase its revenues the Government found necessary to revise upward a number of its tax laws, which by 1935 had increased its income to the highest figure ever recorded.

Most important from the standpoint of effect on foreign commerce were the several revisions of customs tariffs. After the decline of the milreis there was applied to that part of the duties collectible in gold a differential based on the fluctuating value of the paper currency to gold in substitution of the fixed ratio formerly applied. Subsequently, a new fixed ratio was established at approximately 30% above the differential then in force. During 1934 there was made effective a new custom tariff designed to increase Government revenues and to grant additional protection to certain domestic industries. As a result of these measures, domestic manufacturing was sheltered from foreign competition to a greater extent than ever before, which, coupled with the higher cost of imported merchandise by reason of the decline in the international value of the milreis, hastened the expansion of existing domestic industries and the establishment of new factories. This brought about a substitution of domestic merchandise for foreign made goods, and decreased dependence on foreign sources for certain articles. At the same time it stimulated the demand

for so-called "capital" goods, but the total imports of this type of merchandise did not reach the values of the decline in other lines.

#### Diversification of Agriculture

Fundamental to an immediate or sustained recovery in Brazil is the solution of the agricultural problem. Depending largely on agriculture for its national wealth and almost entirely on the export of a few agricultural products for its foreign trade and income from which to maintain its international credit, national economy urged intervention on behalf of the farmer. Over-production of several crops, predominant in export trade at a time when other areas of the world were expanding output and offering increasing competition, failure to improve production methods or marketing by rigid classification or standardization and faulty distribution, were recognized as obstacles to the expansion of markets. The coffee production of Brazil could supply the needs of the world, but the participation of other countries in the world's markets results in a heavy periodic surplus of Brazilian coffees which must be disposed of in such a manner as to prevent prices from declining below production and marketing costs. This led to an attempt to restrict new plantings and the decision to destroy surplus crops, through a regulating agency set up by the Government. The cocoa industry has felt the effect of increasing competition which led to the establishment of an Institute which is attempting a more intelligent direction of planting, and to assure uniform classifications, and reduce transportation, warehousing, and marketing costs. Thirty-five years ago Brazil supplied most of the rubber consumed by the world, but today it contributes only a negligible percentage of the enormous requirements, and nothing has been done by the Government to remedy this situation. A century ago Brazilian sugar was also an important commodity in international commerce, but while sugar cane growing is still one of the most important industries, it is only since the formation of a Sugar and Alcohol Institute during 1933, under the patronage of the Government, that orderly marketing has prevented disastrous price declines and permitted the export of a small amount of heavily subsidized sugar. Several other associations of producers have been encouraged by the Federal or State Governments, among which may be mentioned the Rice Institute, Herva Matte Institute, and the Meat Institute of Rio Grande do Sul, most of which have proved beneficial.

Both the Federal Government and State Governments have given aid to planters in other directions, such as by making available the results of studies conducted at experimental farms on pest control, the distribution of seeds, and other propaganda material.

This, coupled with the fall in coffee prices during 1929 and subsequent and only partial recovery of the coffee markets, and the cost to the producers of the various measures designed to arrest this decline and restore prices, turned the attention of agriculturists to the possibilities of substituting for a part of the coffee crops other more profitable products. As a result there has occurred a substantial increase in diversification. The value of cotton production during recent years rivals the value of the coffee crop, the citrus fruit industry has reached significant proportions, rice culture has been steadily expanding, both the quality and quantity of cocoa are improving, and such crops as beans, corn, oats, barley, etc., continue to be produced in quantities sufficient to meet the steadily expanding domestic consumption.



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While coffee is still the premier export crop, the base has been broadened by the growing diversity of exportable commodities and dependence on coffee has been diminished.

#### Treaties and Commercial Arrangements

The trend toward national sufficiency which has led so many countries to erect barriers against imports had a serious repercussion on Brazilian exports. High duties and quota systems not only impeded the movement of coffee, but were obstacles in the way of the development of markets for other Brazilian products, especially those which heretofore contributed only a small proportion of Brazil's exports. The Brazilian Government has consistently negotiated to assure adequate quotas for its products and has opened larger markets in some countries in return for concessions it has been willing to grant. In order to release credits blocked in Brazil, some countries agreed to increase imports of Brazilian commodities over a stated period; increased import quotas were secured from others on Brazil's insistence for most-favored-nation treatment. The fact that most of Brazil's exports are raw materials or materials essential to the requirements of other nations has favored this type of negotiation and has permitted Brazil to find ready acceptance for its surplus output.

#### Domestic Purchasing Power

In addition to the measures above set forth, the Federal Government and State Governments have opened a broader field for their internal securities and by accordng greater credit facilities to industries through extension of the rediscount department of the Bank of Brazil have made it possible to stimulate domestic production of industrial and agricultural goods.

Apparently the present internal purchasing power of the country is as high as it has been in any recent year. In 1928 the estimated value of leading agricultural products - coffee, cereals, meat, dairy products, sugar, fruits, rice, beans, cotton, lumber, tobacco, - was 10,634,000 contos (the annual average value of the five years 1926-30 was 8,040,000 contos), of which the value of the bumper coffee crop of that year accounted for 4,450,000 contos. As, in fact, a substantial part of that crop was carried over into subsequent years and eventually destroyed, it is doubtful whether two-thirds of the estimated value was realized. In 1935, the estimated value of the same leading crops was 9,355,000 contos, but of this the value placed on the coffee crop was only 1,320,000 contos of which a very small percentage was destroyed.

Mining activities during 1935 were much more extensive than during 1928, as is shown by the fact that coal output increased by 130%, pig iron by 120%, and cement by 300%. The value of the output of the seven leading mineral products - industrial diamonds, diamonds, coal, pig iron, manganese, gold and salt - was 190,000 contos, compared with 104,000 contos in 1928. Of these items it is known that the estimates of gold production in 1935 were lower than actual output, as they were based on official sales of gold and there has been a great deal of clandestine disposal of gold to avoid the necessity of selling at the prices fixed by the Government.

The full extent of the expansion in manufacturing is not shown by the available statistical material. Using the data issued by the State of Sao Paulo which embraces approximately 70% of the total manufactured output of the country, it would appear that the value

in 1935 for the country as a whole exceeded the 1928 value by approximately 10% in spite of the lower average prices of raw materials.

The consumption of electric energy has also shown an increase. The two largest public utility groups estimated consumption for industrial purposes and private lighting during 1935 as at least 15% greater than during 1928.

Coastwise tonnage increased from 1,899,000 tons during 1928 to 2,180,000 tons during 1935.

The distribution of purchasing power is also greater today than at any time during pre-depression years. While the large coffee growers have been suffering from lower prices and a heavy burden of taxation made necessary to dispose of excess output, and their total earnings are less than when coffee was selling at pre-depression prices, this has caused many "fazendeiros" to turn to other agricultural crops so as to augment income. As markets have been found for other crops which lend themselves to the economy of smaller farmers there has occurred a transition from large absentee ownership to small operating farmers. This is clearly evident from the fact that in the State of Sao Paulo of the 274,740 agricultural proprietors listed, 106,572 have farms of less than 5 "alqueires" (approximately 31 1/4 acres), 70,400 of from 5 to 10 "alqueires" (31 1/4 to 62 1/2 acres), and 49,253 of from 25 to 50 "alqueires" (156 1/4 to 312 1/2 acres). It is stated that as late as 1931, large proprietors of the State of Sao Paulo represented 51% of the total cultivated land, whereas the 1934 census showed large proprietors controlled less than 10%.

It may also be pointed out that the cost to Brazil of its import purchases and service on its foreign debt was not greater during 1935 in terms of Brazilian currency than during 1928. From exports there was received a larger amount of Brazilian contos than during any immediate pre-depression year, and while imports also cost more the net balance favorable to Brazil from its visible trade was approximately the same as during the year 1928, when both exports and imports reached the pre-depression peak. By the operation of the 1933 foreign debt partial payment plan the cost of this service and amortization was reduced so materially that it required a smaller amount of Brazilian currency during 1935 than during the aforementioned year.

On the other hand, by the growth of manufacturing industries there is a greater amount of employment for labor. Both agricultural and industrial labor and employes of the white-collar class are now receiving higher wages than ever before, whereas living costs for the Brazilian family in the larger industrial cities were at approximately the same levels during 1935 as during 1928, when living costs were highest.

#### Brazil's Foreign Trade

During the 10 years prior to 1930 there was a steady increase in Brazil's total foreign trade, and the balance of trade was constantly active. The peak of this movement was reached during the 5-year period 1926-30, when the average annual value of exports attained the sum of \$427,000,000 and imports reached \$379,000,000. The year 1930 was well advanced before the full effects of the dislocation of world's markets became apparent; during that year the volume of exports reached new high figures although price recessions reduced the value of the shipments to a figure below that of the preceding year. During 1931 the decline became accentuated, but it was not until 1932 that Brazil's foreign commerce fell to its



lowest levels. Since then recovery has been rapid and by 1935 the volume of exports exceeded that of any previous year in the history of the country, although values, in terms of dollars, amounted to only two-thirds of the annual average of the 1926-30 period. Imports have also mounted steadily since the low point in 1932, although this has been at a slower pace and the volume is still well below any of the five years preceding the depression. From the adjoining table of exports and imports (see Table 1) it is evident that Brazil is not suffering from a contraction of export markets; its foreign trade balance in terms of foreign currencies is less favorable solely from the fact that prices for those commodities which enter its external trade have fallen more sharply than the level of the cost of commodities imported. During 1928 the per ton value of exports was approximately \$227.00 whereas in 1935 the per ton value was \$97.00. Import values on the other hand, which in 1928 amounted to an average of \$75.00 per ton, had only declined to approximately \$53.00 per ton.

Table No. 1. BRAZILIAN EXPORTS AND IMPORTS - 1926-1935

Years	EXPORTS			IMPORTS		
	Metric Tons	Values in Contos	Values in Dollars	Values in Tons	Values in Contos	Values in Dollars
1926	1,858,000	3,109,559	\$444,169,000	4,947,000	2,705,553	\$386,452,400
1927	2,017,000	3,644,118	430,899,600	5,520,000	3,273,163	387,035,900
1928	2,075,000	3,870,273	474,742,700	5,839,000	3,694,990	441,826,000
1929	2,189,000	3,860,482	455,352,900	6,109,000	3,527,738	416,105,000
1930	2,274,000	2,907,354	313,731,900	4,881,000	2,343,205	252,854,800
1931	2,236,062	3,396,164	240,590,783	3,476,161	1,880,934	139,508,695
1932	1,632,265	2,536,765	178,255,293	3,254,393	1,518,694	105,818,626
1933	1,910,772	2,820,271	225,126,808	3,837,526	2,165,254	169,861,596
1934	2,184,782	3,459,006	286,607,114	3,845,718	2,502,785	207,737,755
1935	2,761,762	4,104,008	269,374,615	4,229,269	3,855,917	224,795,657

For many years the United States has been the largest purchaser of Brazilian products, with Germany or France following in second or third position. In 1934 and 1935 exports to Germany increased, placing the country definitely in second place, and Great Britain replaced France as the third largest purchaser.

Until 1934 the United States was the unchallenged leading supplier of Brazil's import requirements, Great Britain normally ranking second and Germany third. During 1934 and 1935 Germany improved its position substantially, overtaking Great Britain during the latter year and supplying almost as much as the United States. Figures on the trade of the first nine months of 1936 disclose that the value of German sales to Brazil were 1% larger than American sales. In the adjoining table is shown the participation of various countries in Brazil's foreign trade for the years since 1926. (See Table 2)

Table No. 2. PERCENTAGES OF BRAZILIAN FOREIGN TRADE

Years	% of Total Exports to						% of Total Imports from					
	U.S.	Germany	France	Great Britain	Argentina	Belgium	U.S.	Germany	France	Great Britain	Argentina	Belgium
	1926.....	47.9	8.4	8.8	3.4	6.3	2.4	29.2	12.7	6.3	19.0	9.9
1927.....	46.2	10.4	9.6	3.4	6.0	2.8	28.7	10.6	6.3	21.2	11.9	4.1
1928.....	45.5	11.2	9.2	3.4	5.9	2.7	26.6	12.5	6.4	21.5	11.5	3.9
1929.....	42.2	8.8	11.1	6.5	6.4	2.8	30.1	12.7	5.3	19.2	10.9	4.5
1930.....	40.4	9.1	9.2	8.3	6.8	3.1	24.2	11.3	5.0	19.4	13.4	3.9
1931.....	43.6	9.2	9.3	7.2	5.9	2.9	25.0	10.5	4.7	17.5	14.6	3.3
1932.....	45.6	8.9	8.9	7.0	6.0	2.6	30.2	9.0	5.1	19.2	7.4	4.0
1933.....	46.7	8.1	9.1	7.5	5.2	2.8	21.2	12.0	5.1	19.4	12.7	5.3
1934.....	39.1	13.1	7.1	12.1	4.7	3.4	23.7	14.0	3.6	17.1	12.4	5.8
1935.....	39.4	16.5	8.1	9.3	4.9	3.3	23.4	20.4	3.4	12.4	12.9	5.8
1st 9 months												
1936.....	36.9	12.5					22.0	23.0				

Note: The above percentages are based on values in £ gold, except those for 1936, which are based on Brazilian currency.

Sources: 1926-30 Comercio Exterior do Brasil, Ed. 1933; 1931-35 Comercio Exterior do Brasil, Summary Ed. 1935 - No. 12-A.



American-Brazilian Trade

The decline in the gold value of Brazil's exports is clearly illustrated by the trade with the United States. From shipments to the United States during 1935 the Brazilian exporter received approximately the same number of milreis as from his shipments during 1926, but exports in 1935 provided only \$93,000,000 in foreign exchange, as compared with \$218,000,000 in 1926. The volume of Brazilian products purchased by the United States was greater in 1935 than in 1926, as will be seen from Table No. 3, although meanwhile the share of Brazil's total imports (on a value basis) taken by the United States declined from 47.9 percent to 39.4 percent.

Table No. 3. BRAZILIAN EXPORTS TO THE UNITED STATES

	1926		1935	
	Kilos	Value in Contos	Kilos	Value in Contos
Cocoa	40,418,019 (bags)	68,345	75,783,667 (bags)	110,213
Coffee	7,466,336 (Kilos)	1,304,810	8,684,327 (Kilos)	1,244,259
Rubber	12,511,121	57,929	5,303,485	14,455
Carouba Wax	2,196,818	9,036	4,194,745	30,070
Castor seed	4,434,780	2,793	35,240,075	21,735
Brazil nuts	18,512,525 (tons)	17,457	9,155,674 (tons)	14,302
Manganese	292,187	23,059	26,695	2,958
<b>TOTAL</b>		<b>1,433,429</b>		<b>1,438,892</b>

Although a comparative classification of Brazilian exports to the United States is not available for the early part of 1935, the percentage of the total declined to 36.0% for the first 9 months of the year. That the United States has continued to absorb such a large part of Brazilian exports is especially remarkable when consideration is given to the fact that it takes practically no cotton which is now the second most valuable export commodity, little of the large shipments of cotton seed or fresh fruits, items which represented an insignificant percentage of the exports of 1926.

Contrasted with this situation is the fact that the volume of Brazilian imports from the United States during 1935 was much less than during 1926, and there has occurred a noticeable decline in the participation of American merchandise in the Brazilian market. The \$113,000,000 worth of goods imported from the United States during 1926 represented 29.2% of Brazil's total imports, whereas the \$51,700,000 worth imported during 1935 by Brazil represented only 23.4% of its total imports. During the first 9 months of 1936, the United States supplied 22.0% of the total.

In the following table there are shown the year to year changes in the value of Brazilian imports from the United States:

Table No. 4. BRAZILIAN TRADE WITH THE UNITED STATES

YEARS	EXPORTS		IMPORTS	
	Values in		Values in	
	Contos	Dollars	Contos	Dollars
1926	1,526,390	\$218,024,600	793,807	\$113,385,000
1927	1,683,813	199,102,900	939,072	111,041,000
1928	1,804,442	215,763,000	981,710	117,387,400
1929	1,629,807	192,239,600	1,063,100	125,396,000
1930	1,179,421	127,271,100	566,184	61,096,800
1931	1,487,733	104,210,650	472,436	33,113,900
1932	1,173,129	83,066,400	456,912	32,329,400
1933	1,309,569	103,100,000	455,400	35,853,000
1934	1,347,168	111,501,640	590,901	48,923,800
1935	1,616,885	93,117,000	897,587	51,692,500

The various measures of the Brazilian Government to protect its exchange position and encourage greater self-sufficiency had an adverse effect on the market for American goods and the loss in trade in some items was not compensated by increased sales of other articles, but an even greater loss has occurred as a result of competition from countries which will only purchase from Brazil to the extent of their sales to Brazil. Brazil's imports from the United States have not only shrunk in value, but also in the range of goods purchased.

In the following paragraphs an attempt has been made to point out the causes of such changes as have occurred and the future marketing possibilities for American made goods in the different commodities. (See Statistical Annex for detailed figures showing imports by countries of the principal items of interest to United States exporters)

#### Agricultural Implements and Equipment

The use of agricultural equipment and machinery in Brazil is surprisingly small for a country having such a large output of agricultural products and such vast potential resources. Planting and cultivating methods employed in many parts of the country are rudimentary and manual labor is used for many operations which might be more economically and efficiently performed by the use of equipment. As an example of this, a substantial percentage of the cotton crops raised in the northeastern States is produced by small farmers who break, turn and cultivate their small patches of land by the use of a single implement, the hand hoe, and in other areas a large part of the corn and beans crops are produced with aid of a hoe or, at the most, a small hillside plow.

The various items falling within this classification were imported to the extent of approximately \$1,000,000 during 1926, of which the United States supplied approximately \$625,000. Since that time there has been a decline in the importation of plows, plowshares and other turning equipment, seeders, incubators and brooders, domestic production of some of these items having expanded sufficiently to take care of a larger part of existing requirements. Offsetting these losses, however, has been the remarkable increase during the



last two years of the imports of cotton presses, hay presses and ginning equipment. The value of imports during 1935 was \$2,620,000.

The United States continues to be the principal source of supply for agricultural equipment, having supplied \$1,625,000 worth during 1935, but the growth of domestic manufacture and competition from other foreign sources is being felt. Most severe foreign competition is offered by Germany, which has been able - with the aid of its 'compensative' trading system - to improve its position substantially in this market during the last eight months, especially in such lines as presses, disc harrows, peg-tooth harrows and plow teeth. However, the firmly entrenched position of certain American agricultural machinery houses has prevented the lower priced German equipment from making rapid headway, and it appears unlikely that Germany can seriously threaten the position of the United States. The rapid expansion of cotton culture during 1934 and 1935, bringing with it an unprecedented demand for baling and ginning equipment, was especially beneficial to American trade, as only a small part of these requirements were supplied by other nationals.

With this development of cotton culture, attention has turned to the utilization of such by-products as cotton seed for the production of cotton seed oil, cake, etc., and most of the equipment thus far brought in for the new oil mills established has been from the United States, but a large foreign concern contemplates the purchase of European equipment for several new mills to be established in the northeastern States.

The outlook for American trade in agricultural equipment is satisfactory. The shortage of labor in rural districts and the steadily rising labor costs should accelerate the trend towards the greater utilization of labor-saving equipment, extending it to the medium-sized farms and possibly even some of the small farms, in addition to the large landholders. The steady division of large holdings into smaller units operated under the personal supervision of the owner, especially noticeable in former coffee growing areas where diversification is displacing dependence on that single crop for income, also favors more intensive cultivation. Likewise, it is probable that the constant efforts of the Federal Government and of some State governments to promote the production of wheat will extend cultivation of this crop in the southern States within a reasonably short time, especially if world wheat prices should show further substantial advances.

#### Automotive Vehicles and Accessories

The largest item of Brazil's imports from the United States is motor vehicles. Aside from the actual value of the motor cars and their accessories, which amounted to 22% of all imports from the United States during 1935, they influence the purchase of gasoline and lubricants, tires and other rubber products, road building equipment and many other items of less importance.

The growth of motor car imports during the ten years prior to the depression was remarkable, having increased from less than 10,000 units in 1920 to 54,000 units in 1929, but an even more violent contraction occurred in 1930 when imports amounted to less than 2,000 units. The effect of the serious disturbance to distributor organizations, financing, and purchasing power has disappeared only slowly, but there has been a steady increase in the volume of imports during recent years, the highest figure having been attained in 1935, when

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9,640 passenger car units and 7,892 truck units (both figures including chassis without bodies) were imported. Nevertheless, it is doubtful whether there are as many motor vehicles in use today as was the case five years ago, for average annual car mortality possibly exceeds the annual imports, in spite of the proportionately large number of old models still in use. Of the estimated 140,000 vehicles now in use less than half have been imported during the last six years.

In 1935, 94 percent of the passenger car imports and 96 percent of the trucks were of American make. This proportion is approximately the same as in 1926, but there has been a steadily increasing tendency for motor vehicles to be imported in an unfinished or knocked-down condition, in order to obtain the benefit of duty rebates. The first assembly plant was erected by an American firm in 1920 within the city limits of Sao Paulo. In 1926, another American company opened an assembly plant; this was rebuilt and enlarged in 1929. A third American company began local assembling in 1936. The Brazilian import statistics do not show separately the volume of imports of complete and unassembled vehicles, but it is estimated that about 80 percent of the total passenger car sales are made by the local assembly plants. Practically all of the truck bodies are manufactured in the country, the statistics of truck imports referring almost exclusively to chassis.

The poor condition of rural roads is an obstacle to the rapid expansion of automotive sales, but the broader distribution of purchasing power is gradually tending to enlarge the market. The immediate outlook for sales is fairly favorable, although it may be some years before the pre-depression peak is again reached. Furthermore American cars are meeting more severe competition from Europe, particularly Germany. American participation in the Brazilian automotive market declined from 94.6 percent during the first quarter of 1936 to 91.6 percent in the second quarter and 90.9 percent in the third quarter. German prices are reported to be in some instances \$300 lower than the cheapest American job. British and Swedish makes of trucks have also been imported in appreciable quantities.

#### Airplanes and Parts

An item which is looming larger in American-Brazilian trade is aircraft and accessories. Ten years ago, Brazilian imports of airplanes were of so little importance that they were not shown separately in the official statistics, whereas in 1935 the total value of the imports of airplanes, airplane motors and accessories reached the considerable figure of 31,908 contos, or approximately \$1,800,000. Of this total the United States supplied \$1,000,000.

American aircraft has held a predominating position in the Brazilian Army and for commercial flying during a number of years, although in the Navy there has been a disposition

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to purchase from one of several other countries. The fact that the repair shops of military aviation are equipped with tools suited to the inspection and maintenance of American motors, has been an element in favor of the U.S., but the fundamental reason for this preference has been the conviction prevailing in the Brazilian Army and commercial aeronautic circles that American aircraft offers the dual attraction of excellent performance with attractive prices.

Commercial aviation has rapidly developed in recent years and during 1935, the seven commercial lines operating in or over Brazil flew a total of 3,000,720 kilometers and 25,592 passengers, and carried 161,720 kilos of freight. In that year there were 59 planes employed in this service, compared with 13 planes employed by the 3 lines operated in 1927. Flying by amateurs has also steadily increased in recent years, but is still limited to a very small group.

At the present time, American airplane manufacturers are encountering more severe competition for such business as is offered, both military and commercial, than at any previous time. In addition to the occasional orders of amateurs for planes from Germany, France and Great Britain, recently the Brazilian company which plans to operate a schedule service between Rio de Janeiro and Sao Paulo, purchased Junkers planes on an arrangement whereby the supplier accepted shares in the company as partial payment, and the Brazilian army and navy have recently made purchases in Europe. Although American aviation equipment is held in high esteem by Brazilians, it is meeting with competition from Europe.

#### Coal

The United States was formerly one of the principal suppliers of coal in the Brazilian market, dividing this business with Great Britain. In 1926 imports from the United States amounted to approximately \$10,000,000. In 1930, Great Britain took a commanding lead which it has held ever since. In that year Germany also became one of the principal supplying countries. During the last three years, shipments from the United States fell to low levels, and in 1935 the United States supplied only 71,000 tons (valued at approximately \$400,000), out of a total of 1,314,000 tons. Practically all of the coal coming from the United States was purchased by American owned public utilities. During that year Germany supplied 186,000 tons directly, as well as probably all of the 333,000 tons shown as having been shipped from the Netherlands. Great Britain supplied 652,000 tons.

The effect of the compensating system imposed by Germany is more graphically illustrated in the movement of coal than in any other item. A substantial part of the blocked credits accumulated in Germany from the export of Brazilian products belonged to the Government of Brazil, although technically they were held for the account of the Bank of Brazil. In order to liquidate these credits, pressure was exerted on Government-owned entities to satisfy their requirements for imported materials from Germany, with the result that the State-owned railways placed the greater part of their orders for coal with that country.

There appears little likelihood that American participation in the Brazilian market for coal will increase so long as Germany continues its present "compensating" system and German mines are able to quote prices so low as scarcely to exceed the transportation costs from American mines to Brazilian ports.

### Foodstuffs

The effect on imports from the United States of the progress which has been made during the last ten years in domestic processing is most apparent from a study of the import movement of wheat and flour. In 1926 the United States supplied more than 113,000 metric tons of flour, over 12,000 metric tons of malt, and 85,500 metric tons of wheat. The value of Brazil's imports of these items from the United States reached the large sum of \$18,500,000. The United States supplied almost all of the flour and a substantial part of the wheat requirements of the northeastern States of Brazil, as well as a small percentage of the imports of the States lying in the central coastal region. Flour milling in the central and southern sections of the country, favored by a customs differential was steadily expanding but had not reached a point where it produced enough to satisfy all of the requirements of that area. Argentine flour found a fair-sized market.

The sharp decline in wheat prices during 1930, followed more slowly by prices of imported flour, tended to favor domestic milling, and the subsequent wheat-coffee 'barter' arrangement between the United States and Brazil (which resulted in the prohibition of flour imports for a period of almost two years) was a strong stimulant to domestic flour milling and resulted in a loss of trade to American mills which has never been regained. By 1935 American participation in the Brazilian market for malt, wheat and flours had shrunk to \$40,000 which represented an insignificant part of the flour requirements of the northeastern States.

There is little possibility that we shall be able to regain the ground lost as a supplier of any of these commodities. Domestic mills are now prepared to supply practically all of the requirements of the country and Argentine wheat, although still considered by the trade as less satisfactory for tropical requirements than the hard winter wheat of Canada and the United States, is imported at lower prices and has an incontestably predominant position.

In the market for fresh fruits the United States has also lost ground. Brazil finds it necessary to import substantial quantities of the fruits grown in temperate zones and the demand for these has been steadily increasing. While the United States is still the principal supplier of apples, it has not kept pace with the expansion of the market, whereas New Zealand, Canada and Argentina have all increased their participation substantially. In 1926 the United States supplied practically all of the imported pears, whereas in 1935 Argentina supplied a larger quantity than the United States. Imports of other fresh fruits during 1935 were more than double the quantity brought in during 1926, but the United States supplied only 12% of the total.

### Electrical Equipment and Accessories

In 1926 the United States was the largest supplier of Brazil's imports of electrical machinery and equipment, but during the past three years it has lost ground to European competition for supplying certain types of materials falling within these groups, a loss most apparent in equipment for the generation of electricity and the maintenance of electric services. As an example of this, in 1926 it supplied over 40% of the \$865,000 of electric dynamos and generators, leading all other countries by a safe margin, whereas in 1935 it supplied less than 25% of the \$160,000 imported, against \$60,000 from Germany and slightly



less than \$30,000 from Sweden. Of the \$813,000 of electric transformers imported in 1926, the United States supplied \$477,000, whereas of the \$560,000 brought in during 1935, the United States supplied only \$165,000. The United States has been able to hold its relative position as a supplier of electric motors, furnishing \$185,000 of the total of \$583,000 imported during 1935, compared with \$345,000 of the \$1,190,000 imported during 1926.

There has been a remarkable growth in the use of electric fixtures and lamps. To meet this demand, one of the large American manufacturers has established a lamp factory here which supplies the major part of the lamps consumed in the central and southern parts of Brazil. It is because of this domestic manufacture that imports of electric lamps declined from 112,000 kilos in 1926 to 95,000 kilos in 1935. During the last two years, however, Japan has been an important factor in the supply of the imported article, having increased its share from 107 kilos in 1926 to 90,400 kilos in 1934 and 84,000 kilos in 1935. Of the \$180,000 of electric lamps imported in 1935, Japan supplied approximately \$95,000.

Offsetting to some extent the loss of trade in equipment for generating, transforming and distributing electric power, there has been created a much broader field for electric refrigerators, radios and other household appliances. Unfortunately for purposes of comparison, the statistical grouping in 1926 was so all inclusive that it did not separately list many of those articles which now represent a substantial part of the trade of the United States. Imports during 1926 of "Machinery for electricity and for electric light", which apparently included all items not separately listed, were valued at 33,782 contos or approximately \$4,665,000, whereas during 1935 imports under the same group amounted to 22,141 contos or approximately \$3,024,000, but during 1935 there were additional classifications including radio telephonic and telegraphic apparatus, radios, radio tubes and accessories, electric refrigerators and accessories and electric domestic devices, electric machines and apparatus for technical uses, the value of which amounted to approximately \$4,890,000. In 1926 imports from the United States amounted to about half of the total or \$2,454,000 and in 1935, again amounting to about half the total, it reached the value of \$3,849,000. Of this total, radios, radio tubes and radio accessories accounted for \$1,720,000 and refrigerators and accessories and air conditioning material for an additional \$1,000,000.

The rapidity of the expansion in the demand for radio broadcasting and receiving sets during the post-depression years attests the ability of the Brazilians, despite the low exchange value of their currency, to purchase luxury items. Prior to 1935, American manufacturers were able to supply almost all of the demand, but the Philips radio has since become a serious contender for the market, not only by offering a wide range of sets at prices lower than some of the well known American makes, but also by attracting dealers by more liberal credit terms and an active advertising campaign. It is estimated that during 1935 Philips sold approximately 25% of the receiving sets marketed, and has apparently increased that percentage during the first half of 1936.

With full allowance for the heavy imports of radio receiving sets during the last three years, it would appear that the market is expanding. The number of local broadcasting stations is increasing and some betterment is apparent in their programs, to which there is the added attraction to the user of better transmission of foreign broadcasting stations and improvements in short wave length receiving.

This anticipated increase in demand may not be reflected in imports for it is likely that production within Brazil may be undertaken on a larger scale. At the present time some assembling is done within the country, but the locally made sets are mostly small units of less efficiency than the imported articles. The market has grown to a point where economical production can be undertaken by some of the larger suppliers and it would appear reasonable to suppose that a move in this direction will be made within a reasonably short time. If so, it would affect American trade in this line.

Although there has been a sustained growth of the market for refrigeration equipment, this has been most apparent in the larger centers of population and the country still offers enormous possibilities for development. As with radios, American refrigerating units, both for domestic and commercial purposes, have predominated by reason of their recognized superiority and intensive merchandising methods. An interesting sidelight on merchandising methods is the fact that a group of American owned public utilities has marketed a large number of domestic units by installment selling, collecting monthly payments by adding them by adding them to consumers' light bills. While domestic units are imported complete, the boxes or cases for a substantial part of the commercial units are made locally.

It would appear that imports of refrigerating units should increase during the next several years as the public learns to appreciate the convenience and economy of household and commercial refrigeration. However, the high cost of these devices in relation to the income of the average Brazilian family limits the market for household units to that small group with independent means, exercising one of the better paid professions or employees falling within the higher salaried class.

If the present rapid increase in apartment buildings continues in the larger cities of Rio de Janeiro and Sao Paulo, owners will find it necessary to attract tenants by offering better inducements, and it is probable that the equipment of such apartments with refrigerators will occur. This trend has developed to a limited extent.

Attempts to introduce air conditioning equipment have not proved so successful as to justify the prediction of an immediate expansion, although ultimately this will develop to sizeable proportions. The costly pioneering work of introduction has been carried on by one large American concern during several years, but only a few places of amusement and a few offices have been equipped with these systems. The high initial and maintenance costs have been the chief deterrent (the power company in Rio de Janeiro charges the flat lighting rate for energy consumed by air conditioning units), but a contributing factor to the slow development has been the resistance of a large part of the public, accustomed to air circulation by the usual apertures in edifices, to the dehumidified cooled air. As Rio de Janeiro, Brazil's capital and chief summer resort, and all cities lying to the north are in the torrid zone, where the long summer temperatures make homes, offices and places of amusement uncomfortably hot during many months of the year, air conditioning is a logical development of the future.

The use of other foreign made electric household devices has not been developed to a great degree. Many articles, such as lamp stands, lighting fixtures, and others, fans, etc., are made locally, and there has not developed a wide use of electrical cooking ranges, toasters, heating pads, grills, etc., nor, even in the more temperate parts of Brazil, of household heating devices. One of the chief obstacles to the development of the market for such articles is the high cost both for the article and for the electricity for its use in relation to the average income of the Brazilian.



### Iron and Steel

The consumption of iron and steel in Brazil is increasing each year as larger quantities are used for construction and other purposes, in spite of the fact that the Government has spent little money in the construction of road, port works or public building during the last five years.

A rapidly expanding domestic industry now contributes a substantial part of the requirements of the country, although it has not sensibly reduced the volume of imports, which in 1935 were approximately the same tonnage as in 1926. The extent of the growth of domestic iron and steel production is apparent from the fact that during 1926 pig iron production totalled 21,300 tons; steel billets, blooms, etc., 9,557 tons; and rolled steel products such as bars, rods and profiles 16,058 tons, whereas during 1935 production of pig iron was 55,070 tons, steel 52,070 tons, and rolled steel products 54,234 tons. Based on figures of imports and production, it would appear that consumption of iron and steel has moved upward during the last ten years from approximately 350,000 tons annually to approximately 450,000 tons.

The participation of the United States in the market for imported iron and steel declined from 25% during 1926 to 22% during 1935, and possibly a smaller percentage for the present year, as the full effect of the lower prices quoted by European competitors was only discernible in the figures for the latter part of 1935. Since the middle of that year American steel concerns have lost to the Germans many attractive orders for steel sheets and plates, galvanized sheets, barbed wire, steel tubes, rails and accessories. Exemplifying the severity of this competition, during 1934 Poland secured a number of large rail orders from different railways by underquoting American and other competitors, whereas during late 1935 and early in 1936 Polish mills were unable to meet German price competition.

A remarkable expansion in the domestic tanning industry has resulted in a rapid increase in the consumption of tin plate, imports of which increased from 16,191 tons in 1926 to 31,080 tons in 1935. American manufacturers were especially successful in improving their position against competition during 1933, 1934 and early in 1935, but towards the end of the latter year sales were also affected by the favored position of subsidized German manufacturers who, shipping through Dutch and German ports, became leading contenders for this business.

The following table, listing a few of the items in which the United States was a larger supplier during 1926, illustrates our recent losses and brings out the fact that Germany has become the principal supplier of many of the articles falling under this grouping.

Table No. 5. Brazil's Imports of Selected Items, Iron and Steel Products, 1926 and 1935

Items	1926					1935				
	Total Tons	U.S. Tons	% Total	Principal competing country Tons	% Total	Total Tons	U.S. Tons	% Total	Principal competing country Tons	% Total
1. Iron Plates & Sheets.....	20,251	5,319	26.3	Belgium 6,934	34.2	28,093	6,567	23.4	Germany 15,066	53.6
2. Galvanized Sheets.....	(Included in No. 1.)					6,805	2,245	33.0	Germany 3,687	54.2
3. Barbed Wire.....	30,442	6,122	20.1	Germany 12,773	42.0	20,324	5,537	27.2	Germany 8,882	43.7
4. Other Steel Wire.....	21,028	1,335	6.3	Germany 10,317	49.1	29,438	4,895	16.6	Germany 15,326	52.1
5. Galvanized Corrugated Sheets	12,363	5,569	45.0	Gr. Britain 6,083	49.2	403	48	11.9	300	74.5
6. Steel sheets for construction	(Included in No. 5.)					4,380	2,086	47.6	Gr. Britain 1,626	37.1
7. Tin Plates & Sheets.....	16,192	4,927	30.4	Gr. Britain 11,074	68.4	31,810	10,637	33.4	Holland 6,861	21.6
8. Iron Superstructure.....	15,871	1,952	12.3	Belgium 5,645	35.6	10,865	1,567	14.4	Germany 5,481	50.4
9. Tel. & Tel. Posts.....	7,462	3,792	50.8	Gr. Britain 1,046	14.0	550	20	3.7	Gr. Britain 330	60.0
10. Rails.....	127,600	22,155	22.2	Belgium 56,170	44.0	53,670	5,763	10.7	Poland 14,602	27.2
11. Pipes, Tubes & Joinings.....	40,189	5,362	13.3	Belgium 11,734	29.2	31,753	4,859	15.3	Germany 9,136	28.7



### Industrial Chemicals and Dyes

Brazil required a wide variety of industrial chemicals but the quantities of the different items imported, as shown in the attached tables, attest the relative insignificance of the demand for a country having 43 million inhabitants, especially when consideration is given to the fact that few industrial chemicals are produced within Brazil.

For many years the United States has been one of the minor sources of supply, contributing only small quantities of the various products imported, with the exception of sulphur, caustic soda, chemical fertilizers, rosin and vaseline. Imports of sulphur from the United States have declined since Chilean mines, favored by a low exchange rate, have been able to underquote all competitors. While sulphur imports increased from 3,900 tons in 1926 to 13,700 tons in 1935, the United States has not benefited from the greater use of this commodity. In 1926 the United States supplied slightly more than half of the approximately \$160,000 of sulphur imports and Italy supplied most of the remaining. In 1935 the United States supplied only \$21,000 of the \$400,000 imported, whereas Chile, which formerly was not an exporting nation, supplied \$210,000 and Germany, \$65,000. The recent establishment of a large caustic soda plant in Rio de Janeiro capable of supplying the needs of the central region has already curtailed imports, and will undoubtedly displace a greater quantity of the foreign product as soon as it is in full production.

The expansion in textile manufacture has been reflected in an increasing volume of dye imports, these having more than doubled during the last 10 years and amounted to 815 metric tons during 1935, German dyestuffs moving from German ports or through Holland dominating the market. During 1935 the United States supplied only \$200,000 of the \$2,800,000 imported, and during the early months of 1936 American producers found it increasingly difficult to meet German price competition. While further expansion will undoubtedly occur in the Brazilian market for dyestuffs, so long as German manufacturers continue to be subsidized, the trade with the United States will suffer.

A number of foreign manufacturers, including some prominent American firms, have established branch establishments in Brazil for the compounding and packaging of chemical and pharmaceutical specialties, using therefor materials partly imported and partly of domestic origin. A considerable portion of the trade, more especially in the line of pharmaceuticals, is now being supplied in this way.

### Lumber

Brazil's forest resources enable it to supply its own needs and a substantial part of the requirements of its neighbors - Argentina and Uruguay. Only an occasional shipment of dressed lumber is imported, usually for some special job and more often for some of the northeastern States where price differences between the foreign and domestic product are not so great as in the south or central regions. Formerly Brazil purchased substantial quantities of lumber manufactures, but for the last 20 years most of these requirements have been satisfied by domestic mills or handicraft. Imports during 1935 classified under this item, amounting to approximately \$125,000, were mostly wall board and acoustic board with very small quantities of plywood and veneers.

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Because of the domestic industry and high tariffs, there is no reason to anticipate an increase in the sale of American lumber or lumber manufactures in Brazil.

#### Machinery - Industrial and Road Building

The expansion in domestic manufacturing has brought with it a growth in the demand for certain kinds of industrial tools and equipment, most of which must be imported.

The United States has not been a large supplier of equipment for weaving mills, although it has been a strong contender for equipment for knitting mills. During 1935 it found Germany offering strong competition for the limited amount of business offering in knitting machines, spinning and twisting machines and other knitting machinery. In spite of restrictions on the importation of textile machinery, set up by the Government to relieve over-production, there was brought into the country a fair volume of looms, and other weaving, spinning and finishing machines, but the United States supplied only a negligible percentage of this.

The domestic manufacture of shoes is now sufficient to meet the entire needs of the country. Previously the United States supplied from 75% to 90% annually of all of the shoe machinery required by this industry, and while it is still the principal source of supply, during 1935 German competitors were able to improve their position substantially by offering prices well below the levels fixed by the chief American supplier. Imports were limited, however, to replacements of parts for existing installations, as the Government also regulated these purchases in an effort to avoid overproduction.

For the last two years there has been an active demand for both hand and power driven equipment for metal working plants, including lathes, planers, shapers, punches and drills, grinding machines, sheet and plate metal working machinery, etc. The participation of the United States in this group is now smaller than ten years ago and is limited to occasional orders, mostly from the Government for its military branches, a few from Government owned railways and foreign owned public utilities, and rarely for plants dedicating themselves to the production of articles for general consumption. While American manufacturers are in position to offer equipment of superior workmanship, finish and efficiency, the Brazilian industry has not reached that point where these considerations offset initial prices and terms of sale. Relatively low labor costs and limited output, coupled with the fact that calibrated accuracy is sufficient for the practical purposes of this industry in its present state, effectively counteract the arguments of greater efficiency and accuracy when these may only be secured at a greater initial outlay. On recent bids called for by the Government for a wide range of machine tools, American prices were in some cases 50% higher than German prices, with the inevitable result that practically all of this business was placed in Europe.

The condition encountered in the metal working industry applies, although to a smaller extent, to the market for woodworking machinery, and in this line also the United States has lost ground to its competitors.



A small increase was noticeable in the imports of mining equipment and machinery and apparently the United States maintained its relative position as a supplier in the face of severe competition.

Although imports of sugar mill machinery are running below the average for pre-depression years, imports during 1935 were the largest for several years. Relatively little of this equipment was imported from the United States. British, German and Belgian manufacturers having been more successful than American suppliers. Germany was favored with orders for alcohol and alcohol dehydrating equipment.

While purchases of roadbuilding and excavating equipment were greater during 1935 than any immediate preceding year, they were still well below the quantities brought in during 1926. The Federal and State Governments have been limiting their highway program almost solely to the maintenance of existing roads, although some extension has occurred in certain sections of northern States and in Sao Paulo, hence there has been little opportunity for an expansion of sizeable proportions to occur in this grouping of equipment. The United States continues to be the leader supplier of such small quantities as are imported, although Germany has secured some of the business offering for excavating equipment.

Summarizing the situation in 1935 as compared with 1926, it seems apparent that the United States has lost ground, partly as a result of the ability of competitors to offer equipment suitable to the market at lower prices and partly because there has been a smaller demand for those items which previously were imported mostly from the United States.

#### Petroleum Products

The progress of industry and the greater number of motorized vehicles now in use in Brazil, including therein military and civil aircraft, has been reflected in the consumption of petroleum products. As Brazil does not produce petroleum, consumption is fairly accurately portrayed by imports.

During 1935 the quantity of gasoline imported into Brazil was approximately 70% greater than during 1926, although still slightly below the peak years 1929 and 1930, whereas kerosene imports held at about the 1926 levels and mineral fuel oil imports were approximately double those of ten years ago. During 1935 there was imported a substantial quantity of crude oil from Argentina, which was almost solely consumed by the oil refinery recently established at Uruguayana and which now produces gasoline, kerosene and fuel oil. Lubricating oil and paraffine imports have also been increasing, but foreign made mineral greases are being replaced to some extent by the plant owned by one of the large American oil companies, which sharply increased its output during 1935.

The United States has lost ground to competitive supplying nations in this group of commodities also, - Mexican, Peruvian and Venezuelan fuel oil, gasoline and kerosene imports having increased at the expense of American exports. In 1926 the United States supplied approximately \$19,200,000 or 77% of the \$24,900,000 imported, whereas during 1935 it supplied only \$10,100,000 or 55% of the \$18,200,000 imported. A substantial part of the imports from countries other than the United States were brought in by one British controlled and one American controlled oil companies, which have found it more advantageous to supply this market from other sources.

Petroleum products, representing 19% of the total imports from the United States in 1935, are one of the major items of United States trade with Brazil, hence diminished imports from the United States are immediately reflected in the participation of that country in the general import movement into Brazil. There is definite evidence that the demand for petroleum products is steadily expanding, but by reason of the proximity of other sources of supply, it appears unlikely that American exports of this group of commodities will increase.

Although indications of the presence of petroleum have been reported at different times from several parts of Brazil, neither the Government nor private companies have undertaken the exploratory work essential to prove its existence in commercial quantities, hence the growing needs of the country must continue to be supplied from abroad. Refining has only been undertaken by the plant mentioned in preceding paragraphs, but the trend towards national sufficiency may focus attention on developments of this character when conditions make it economically feasible.

#### Office Equipment and Stationery Supplies

Brazil does not have a large per capita consumption of foreign made office equipment and stationery supplies. The use of mechanical equipment for labor saving in offices is limited to a few of the more essential devices even in the larger cities, and in many of the smaller towns even these are frequently dispensed with by businesses which might be expected to resort to their use.

Formerly Brazil imported a fair quantity of office furniture, some of wood and some of steel. By 1928 practically all of the demand for wooden furniture and a part of the limited steel furniture was being supplied by local factories, but there still existed a fair demand for such steel devices as filing cabinets, card indexes, cash boxes, etc. Impetus to the domestic fabrication of these articles was given by the decline of the milreis and the subsequent several increases in customs duties. The tariff act of 1934 augmented duties to such levels that by the beginning of 1936 the demand was being supplied practically entirely by local factories, except for some needs of the Government or entities which could secure tariff preferences and that small group of businesses which found it essential for management purposes to install card indexing systems. In the face of existing tariffs, there appears little likelihood that the market for imported steel furniture can be extended.

American typewriters have always predominated in this market by reason of their known efficiency, sturdy construction and the intelligent sales methods adopted to familiarize operators with their use. While the majority of the machines in use are of the standard size, there is a fair market for portable machines, and a small demand has been created for some of the oversize carriages. The number of machines imported during 1935 was above the number brought in ten years ago, but the competitive position of American typewriters was less favorable than previously, its share having declined from 82% to 64%. Germany was able to improve its position by reason of the operation of the compensating system of exchange, at times offering prices on one well known German typewriter 25% below American prices. These lower prices induced several of the departments of the Government of Brazil and several State Governments which hitherto were equipped with only American typewriting machines to purchase German equipment, and a larger volume of substitution was in prospect.



Significant also is the fact that the stocks of primary distributing agencies for German typewriters are more complete than at any time previously and that there has been an extension of secondary distributing channels. In lines of typewriter ribbons and carbon paper, the United States also sustained a loss of participation in the Brazilian market from German and other European competition.

Although no comparative figures for imports of calculating machines are available, as these were not separately listed in Brazilian statistics during 1926, it would appear that the market has not regained the pre-depression volume of purchases of these devices. In 1935 under the classification calculating machines, which also embraces adding machines, were valued at approximately \$440,000 of which the United States supplied \$305,000 and Germany approximately \$100,000. It would appear that Germany has displaced the United States as the leading supplier of calculating machines, but has not been equally successful in competition for the market for adding machines.

The United States also continues as the leading source for statistical compilation equipment. This is partly due to the fact that the local distributor for the largest American controlled concern contracts this service to the Government and Government entities, the principal users of this type of equipment. The official statistics do not separately list imports of this equipment, most items having been included within the 1936 figures on calculating machines.

Mimeographing equipment imports were also smaller during 1935 than in some of the pre-depression years, but unfortunately comparative figures are not available. Under the classification duplicating and registering machines, official statistics show a total importation of approximately \$385,000 of which the United States supplied \$328,000. Predominance of the United States as a supplier of the devices falling in this group is accounted for by the preeminence of American made cash registers, which have encountered little competition. This is one of the few lines in which Germany has not improved its position.

There is only a very small demand for addressing machines, dictaphones, and time stamping machines, - the occasional purchases having been made from the United States, but the last metering machines purchased by the Post Office Department were British.

In the small office supplies field, the United States now contributes only a small part of the volume purchased by Brazil ten years ago. Local manufacturers supply most of the demand for writing tablets, paper, elastic bands, erasers and pen holders, and various European countries participate with American concerns in the market for pencils, pens, pins, clips, etc.

#### Railway Rolling Stock

A large part of the rolling stock and railway equipment required by the 20,500 miles of railway existing in Brazil is supplied from abroad, hence the annual volume of purchases is substantial. During 1936 the imports of railway rolling stock and parts thereof reached a total value of approximately \$14,700,000, of which the United States supplied \$4,300,000 or approximately 30%, consisting of \$308,000 of railway cars and wagons, \$1,235,000 of axles, wheels and other appurtenances for railway cars, and \$2,757,000 of locomotives and parts, except boilers.

For the past several years the railways of Brazil have been limiting their purchases to their most urgent requirements, and it was not until 1935 was well advanced that there were evidences of a revival, although during 1934 a contract was awarded by the Central do Brazil Railway to the British concern Metropolitan Vickers for the electrification of lines to the suburbs of Rio de Janeiro. During 1935 and the early months of 1936 the volume of purchases have been slowly mounting, but many of the railways, especially those owned by the Federal Government and some of the State Governments are in dire need of rolling stock and other equipment which must be purchased soon if they hope to maintain orderly traffic movement.

Unfortunately, American manufacturers have not been able to benefit from the increasing demand. During 1935 there were imported approximately \$10,000,000 of rolling stock and equipment, of which the United States supplied the insignificant sum of \$533,000. Whereas during 1926 the United States and Germany participated to almost an equal extent in the purchases of locomotives, during 1935 the United States supplied only six of these, valued at \$268,000, in contrast with 32, valued at \$1,146,000, supplied by Germany. The United States furnished only \$106,000 of the accessories for locomotives (except boilers) imported by Brazil during that year against the \$121,000 supplied by Germany, and it failed to sell any of the \$2,432,000 purchases of railway cars, practically all of which were of Belgian origin. The United States also supplied \$21,000 of street railway cars and \$29,000 of dump cars, cane cars, etc.

For many years American railway equipment enjoyed an excellent reputation in Brazil for quality and performance. This, coupled with the service offered by manufacturers, reasonably prompt deliveries and satisfactory credit terms frequently offset small price differences favoring Continental European countries, although some of the British owned railways showed a preference for British manufactured equipment. In recent competition, however, the price differences favoring German locomotives and parts have been so great, representing from 25% to 40% of the American prices and with long terms of payment, that other considerations could not be made sufficiently attractive to overcome this handicap, with the result that Germany has been more successful than any other country. Belgian prices for railway cars have also been much more attractive than American prices with consequent displacement of American participation in this business, except that an order for 400 freight cars was placed with an American manufacturer early in 1936, because of the superiority of construction and materials offered.

#### Rubber Products

Although Brazil has an unlimited supply of raw rubber and for many years was one of the world's principal sources for this product, it is a large purchaser of manufactured rubber goods. Ten years ago Brazil exported raw rubber to a value of \$16,400,000 and imported approximately \$5,500,000 of manufactured rubber goods. During 1935, after some recovery had occurred from the low point of immediately preceding years, exports of raw products were valued at only \$290,000, and imports of rubber manufactures, closely approximating the volume attained in 1926, were valued at \$1,900,000.

While Brazil still relies on foreign sources for most of its requirements, there is developing a domestic manufacturing industry which now supplies a substantial part of the smaller items of more simple manufacture, such as packing gaskets, hose, hospital and laboratory equipment, druggists' sundries, school supplies, shoes, etc., and there are four factories producing tires and tubes. The largest of the latter, which is located in Rio de



Janeiro and began operations early in 1936, is equipped with modern machinery and is under the technical direction of American production engineers. It is now turning out approximately 150 tires and 180 inner tubes daily and anticipates stepping up production to 250 units each within the next thirty days. This concern is a serious contender for the tire market, as the splendid appearance and freshness of its products together with lower prices than foreign competing articles have made them popular with consumers.

For many years the United States has been the leading supplier of the Brazilian market for tires and tubes, supplying during 1926 approximately one-third of the total imports, and steadily improving its participation to two-thirds of the total in 1929. More severe competition in recent years has caused some recession, but American tires and tubes accounted for half of the total imports during 1935. Prior to 1935 the principal competitors for this market were Great Britain, France, and Italy, but during that year German and Japanese manufacturers were able to improve their participation.

In spite of the excellent selling organizations which permit American concerns to offer facilities which hitherto have attracted the larger part of the business offering, it would appear that the present volume of sales from the United States will decline, unless American purveyors are willing to meet the sharp price reductions which have been made by competitors. German, Italian and Japanese manufacturers are cutting under competitors with prices 15% and 20% below list and all discounts. Equally significant has been the fact that the domestic manufacturer mentioned previously has been able to displace well known foreign products not only in the Federal District but in the more distant cities of the northeastern and southern States.

#### Textiles

Textiles is another group in which the United States has lost a substantial amount of trade.

During 1926 imports of cotton piece goods totalled the large figure of \$19,000,000 of which the United States supplied approximately \$940,000. The domestic mills have been steadily increasing the variety of materials manufactured and displacing foreign made goods. As a result imports during 1935 amounted to only \$1,200,000 and of this total the United States supplied only \$45,000. Although Brazil is one of the large cotton producing countries, it has not developed the spinning of cotton yarn so as to meet all of its requirements and there is a demand for foreign spun yarns of fine counts or finish. During 1926, cotton yarn imports were valued at \$3,288,000, of which the United States supplied \$782,000, whereas in 1935 the United States supplied less than \$1,400 of the \$2,130,000 imported. The question as to whether the United States may be able to increase its sales of yarns depends largely upon whether we can meet the price competition from Europe on fine count mercerized yarns, and overcome the well entrenched position of the British. During the early part of 1935 we were able to supply a large volume of business than during 1935, but it is not certain that this trend can be maintained.

There is little likelihood that we shall be able to recover the volume of trade held in 1926, as the domestic industry, protected to a greater extent than ever before, can meet any competition in manufactured products which might be offered by the United States, although it may feel competition later from certain Japanese products.

Silk and rayon weaving has also developed rapidly during the last ten years, and now supplies most of the requirements for knitted and woven silk and rayon goods. The United States was not a large supplier of manufactured silk or rayon goods ten years ago, but the development of the local industry has made it necessary for Brazil to import greater quantities of yarn from which the United States has benefited. In the import figures of 1926 silk and rayon imports were classed together, and during that year there were imported 24,114 contos of silk and rayon yarns and threads, of which the United States supplied approximately 10%. In 1935 there were imported 40,000 contos of silk yarns, of which the United States supplied 8,800 contos or more than 20%, and 13,000 contos of artificial silk yarns of which the United States supplied only 120 contos. The chief source of supply of natural silk yarns is Italy, and France supplies most of the artificial silk yarns. An important firm producing rayon yarns in the United States has recently transferred a part of its manufacturing interests to Sao Paulo, Brazil.

While silk culture in Brazil, encouraged by Federal aid and State grants, is slowly growing, it is not progressing as rapidly as the demand for silk materials, hence imports should continue to increase for some time to come. In this line the United States may be able to hold its present position, and in rayon it may be possible to improve its participation as intensive selling efforts on the part of one of the larger American producers has resulted in some recent expansion of sales in this product.

#### Sewing Machines

A remarkable change has taken place in the source of supply of sewing machines. Reference to the attached tables will show that in 1926 the United States supplied approximately 60% of the total imports of these articles and retained that position until 1934, when it contributed only slightly more than 50% of the total. In 1935 imports from Germany were almost double those of 1934; from Canada, were five times as large during the preceding year, whereas from the United States they were only 50% greater. Of the total of approximately \$2,500,000 of sewing machines imported, the United States supplied only \$1,000,000, but a substantial part of the \$600,000 worth brought in from Canada were supplied from Canadian branches of American concerns.

The full effect of the competition offered by Germany was not apparent from the 1935 figures, as the existing distributing organizations were not in position to take full advantage of the market possibilities. With the greater facilities now being offered by German manufacturers, both in the form of stocks available, term financing and lower prices, Germany is steadily improving its position and will probably show a further large increase at the expense of the United States during 1936.

#### Miscellaneous

In addition to the foregoing there are many other items imported into Brazil in which the United States trade has been affected by competition from other foreign supplying nations or the domestic manufacturing industry, but as the relation of these to the total of American exports to Brazil is less in value, an analysis could only emphasize the conclusions set forth above. Therefore, only a few of these have been selected at random as indicative of the trend.



Motion pictures and photographic material. - Imports of developed motion picture films were less during 1935 than during 1926, probably affected to some small extent by the growth of a domestic filming industry which has been able to popularize shorts, especially the "newsreel" type. As a supplier, the United States has lost ground to Germany and Great Britain; of the 37,600 kilos of films imported into Brazil during 1926, the United States supplied 32,700 and Germany, 1,413 kilos, whereas of the 34,700 kilos imported during 1935 the United States supplied 27,700 kilos and Germany 3,816, Great Britain and France dividing the remainder. American films still have greater drawing power than those of any other nationality, hence their earning power to the American companies is greater proportionately than any competitor, nevertheless several German musical films have drawn capacity houses wherever shown. The United States has been able to improve its position slightly as a supplier of motion picture machines, and has a great lead over all competitors in sound apparatus and accessories.

While it is known that there has been a growth in the use of photographic equipment, unfortunately the arrangement of Brazilian statistics does not permit a comparison of imports of photographic machines during 1926 with 1935. The United States has been unable to improve its position as a supplier of photographic machines against the severe competition offered by Germany, but it has been able to make a somewhat better showing in films and photographic paper.

Leathers. - Brazilian statistics formerly classed all imports of leathers and skins and furs under a single grouping. During 1926 there were imported \$4,600,000 of foreign products under this heading, most of which were leathers. Of this total the United States supplied about one-third, or \$1,577,000. Improved tanning and dyeing methods now employed by the domestic industry, coupled with the higher protection it is receiving against foreign competition have sharply reduced the quantities of imports, which during 1935 represented only 15% of the volume of 1926. American trade in leathers practically ceased, although during 1935 there were imported by Brazil from the United States approximately \$60,000 of furs.

Stoves. - In 1926 Brazil imported approximately \$290,000 worth of stoves, more than one-half of which were brought in from the United States. Domestic manufacture of coal stoves and gas stoves has curtailed imports and in 1935 the total value of such imports amounted to only \$54,000. Of this total, the United States supplied only approximately \$4,000 worth of stoves other than gas stoves, and \$5,000 of gas stoves.

Musical Instruments. - With the growing popularity of radio, the demand for musical instruments has dwindled to insignificance. Except for automatic pianos and phonographs, the United States was not an important supplier even ten years ago, and in recent years we have supplied very little. In 1926 Brazil purchased 50 automatic pianos from the United States valued at \$43,800 - in 1935, none.

Phonographs. - In 1926 American made phonographs accounted for approximately \$260,000 of the \$420,000 of total imports and \$144,000 of the approximate \$190,000 of records. By 1935 total imports of phonographs had declined to approximately \$22,000, of which the United States supplied one-third, and imports of records were valued at only \$23,000 of which the United States supplied approximately one-third. The shrinkage in our trade in these

items has been more than compensated by the great volume of radio receiving sets, some of which also have the phonograph attachment. However, the loss in the volume of business being done in records is also traceable to the improvements which have been made in the local production of these within the country.

**Steel Cutlery.** - Imports have been seriously diminished by the rapid expansion which has occurred in local production, - this decline being from \$539,000 kilos in 1926, valued at approximately \$1,400,000, to 192,000 kilos in 1935, valued at approximately \$490,000. Whereas in the former year the United States supplied approximately \$220,000 of the total and was second only to Germany which supplied \$790,000, imports from the United States in 1935 were valued at only \$33,000, compared with Germany's \$400,000.

**Rosin and Turpentine.** - With the growth of the cotton seed oil industry, this product has been substituted for rosin in a number of soap manufacturing plants. As a result, imports of rosin which previously amounted to between 15,000 and 20,000 tons per year, fell to the low figure of 8,740 tons in 1935. As practically all of this commodity is supplied by the United States, the shrinkage in volume and value has most seriously affected our commerce. In terms of contos, the value of 1935 imports was almost exactly half that of 1926, but in terms of dollars the decline was from \$2,690,000 to \$500,000.

An accurate comparison of the extent of the Brazilian market for turpentine during 1926 and 1935 is not possible from the official statistics of imports. During the former year Brazil imported 1,621 metric tons of turpentine and substitutes valued at approximately \$375,000, practically all of which came from the United States. During 1935 import tonnage of turpentine amounted to 802 metric tons valued at approximately \$110,000 of which the United States supplied \$75,000, but a new classification had been added to the figures of imports - "Other solvents and plastic materials" - which probably included turpentine substitutes. Total imports under this heading amounted to 2,286 tons valued at \$255,000, of which the United States supplied \$195,000. Nevertheless, comparison of American statistics of exports to Brazil for the two years mentioned shows a substantial reduction in the quantities of turpentine now supplied to Brazil by the United States.

**Scales.** - By superior marketing facilities and the variety of types offered, the United States has been able to improve its relative position as a supplier of scales to Brazil. Ten years ago Brazil imported 357,000 kilos of scales valued at 2,378 contos, or approximately \$235,000. Of this total value, Germany supplied \$72,000 and the United States \$53,000. In 1935, total imports amounted to 157,000 kilos, valued at 1,479 contos, or approximately \$88,000, of which the United States supplied slightly more than \$50,000.

**Tools and Utensils.** - Domestic manufacture of many articles classed under this heading has increased substantially, taking care of a part of the demand for carpenters' and mechanic tools of simple manufacture, which has been reflected in a decline of imports. Up to 1926 there were included in this group such items as hoes, shovels, pickaxes and similar tools, which subsequently were separately classified, which explains in part the apparent sharp decline in the figures in the attached tables. Nevertheless, in these groups the United States' participation is declining in relation to competitors.

#### American Trade and Brazilian Industry

Manufacturing of many articles of general consumption was carried on during the Empire period, and further impetus to development was given by the first customs tariff acts of



the early republican years. Some industries, such as textiles, became strongly established, but it was not until the outbreak of the World War that a broad expansion occurred. Since that time there has been a steady growth, both in the range of articles produced and in the quantity and quality of goods.

The force of the additional consumer demand as purchasing power grows, and the pressure of capital for investment in profitable enterprises together with the existence of raw materials, a greater supply of skilled workmen at relatively low wages, and the fact that there is a heavy concentration of population and wealth within the immediate vicinity of the two largest industrial centers, Sao Paulo and the Federal District, are likely to urge a further expansion in domestic manufacturing.

Foreign investments in manufacturing may also influence this development. Even with the handicap of exchange depreciation and restrictions against the remittance of earnings to foreign investors, during the last several years the inflow of foreign capital has not entirely stopped, and with the uncertainties of the European political situation and the effect on earnings of the growing burden of taxation, it is possible that this migration will be encouraged. To maintain their markets in Brazil for products which are being shut out by the tariff protection policy of the Government or which can only meet foreign competition if manufactured or processed within Brazil, some American manufacturers are also finding it advantageous to resort to domestic manufacturing or finishing.

With the growth of domestic manufacturing and greater competition among these factories, attention must be given to efficiency in operation which should favor equipment with large capacity and which requires less manual labor - a development from which American tools and industrial equipment should benefit.

Competition

The United States has been able in the past to maintain a predominant position in the Brazilian market largely by virtue of its comparative advantage in supplying such raw materials and semi-manufactured commodities as wheat, wheat flour, fruits, sulphur, and petroleum products. The shifting of Brazil's purchases of this type of product to neighboring South American countries, occurring at a time when American manufactured products are meeting increasingly severe competition from the industrialized nations of Europe—competition in some cases, stimulated by governmental intervention—has recently resulted in the displacement of the United States by Germany as the principal supplier of Brazil's imports.

Mention has been made of Brazil's efforts to diversify agricultural exports in order to reduce dependence upon coffee as the main source of foreign exchange. The country has been successful in developing a larger export surplus of cotton and by-products, frozen meats, fresh fruits, vegetable oils, hides and skins, and rice. In order to keep open the European market for the most of these products, Brazil has entered into various "compensatory" trade agreements in which the value of Brazil's exports to a country is balanced against the value of imports from the same country. German exports to Brazil also have been favored by the German system of exchange manipulation and export subsidies. Since the "New Plan" of foreign trade control was put into effect by Germany in the autumn of 1934, that country has increased its participation in Brazil's import trade from 11.3 percent (average) during the years 1931-1934 to 20.4 percent in 1935 and to 23 percent during the first nine months of 1936.

Whenever Brazilian exports to Germany tend to exceed purchases from Germany, the proceeds of the export surplus are accumulated in Germany in the form of blocked credits which can only be used for the purchase of German merchandise. As it is not in the interest of the Brazilian Government to maintain a large credit of this kind, there has been a tendency for Government-controlled companies (such as the railways and the Bank of Brazil) to divert their purchases to Germany in order to liquidate the outstanding credits. As a consequence, the railways have made substantial purchases of German coal and rolling stock, the Bank of Brazil and Government departments are using more German office equipment, and Government-owned industries have bought German machinery and supplies. In all of these lines the German goods compete directly with types of merchandise of which the United States has in the past been the principal supplier.

Japanese participation in the Brazilian market is also increasing rapidly, although the Japanese share of the total is still small, being only 0.90 percent in 1935 and 1.03 percent during the first six months of 1936. Shipping services between Brazil and Japan have been improved, and the Japanese are devoting special attention to enlarging their purchases in Brazil. Recently commercial missions have been exchanged between the two countries.

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COUNTRY	1966		1970		1975		1978	
	TONNES	TONNES	TONNES	TONNES	TONNES	TONNES	TONNES	TONNES
<b>TOTAL</b>	19,373,882	13,869	18,399,369	18,970	13,880,768	14,074	13,330,311	21,711
ARGENTINA	5,025,769	4,393	9,969,040	9,540	6,908,996	8,803	9,539,964	16,038
UNITED STATES	12,675,910	7,666	4,698,849	5,511	1,047,819	861	40,492	31
CZECHOSLOVAKIA	1,343,315	1,143	10,000	7	386,000	297	1,427,746	2,496
ITALY	-	-	-	-	2,196,404	2,101	333,300	404
INDIA	-	-	-	-	-	-	1,894,531	1,650
<b>TOTAL</b>	221,356,312	151,600	158,279,361	92,122	92,953,637	30,099	49,488,936	31,342
ARGENTINA	83,354,448	56,480	57,154,089	33,869	68,816,854	31,138	34,030,946	21,342
UNITED STATES	112,173,337	78,493	74,449,646	47,490	16,482,973	11,326	6,432,238	6,734
INDIA	11,046,220	7,471	14,999,612	10,285	12,505,665	7,147	3,746,692	2,490
<b>TOTAL</b>	454,818	679	348,900	669	14,279	8	25,176	737
UNITED STATES	449,728	670	338,901	659	105	-	860	5
<b>TOTAL</b>	622,149	1,138	892,005	2,298	29,731	348	44,636	803
JAPAN	-	-	-	-	5,403	42	11,642	137
UNITED STATES	458,620	861	736,454	2,169	1,344	7	805	5
GERMANY	58,693	146	34,088	126	3,226	29	412	4
HOLLAND	1,767	-	21,614	-16	19,493	16	20,336	23
SWITZERLAND	2,504	-16	2,690	-68	17,469	280	3,304	147
<b>TOTAL</b>	542,657,982	255,988	648,239,518	204,982	829,442,714	256,467	881,782,821	454,463
ARGENTINA	392,706,501	184,118	595,817,147	845,393	794,618,367	102,939	880,728,054	433,807
UNITED STATES	89,507,943	40,364	27,409,585	9,489	53	84	255,188	337
CANADA	60,699,116	29,570	5,582,500	2,096	5,925,900	1,731	6,370,380	2,075
<b>TOTAL</b>	448,512	1,252	296,726	340	76,688	310	70,144	349
UNITED STATES	445,071	1,289	288,688	774	34,799	302	34,852	69
GERMANY	11,294	31	42,800	130	36,779	94	35,332	147
<b>TOTAL</b>	4,414,726	7,350	2,422,337	4,544	6,191,936	11,273	5,501,474	12,699
CANADA	-	-	-	-	197,292	399	88,244	208
ARGENTINA	66,210	80	97,440	850	133,900	441	169,667	438
UNITED STATES	4,257,403	7,158	2,337,539	4,169	2,964,830	5,049	3,537,743	7,899
NEW ZEALAND	-	-	-	-	444,040	785	667,080	1,499
<b>TOTAL</b>	2,205,957	4,392	1,940,059	4,609	3,344,337	6,924	4,336,037	10,389
ARGENTINA	35,873	58	229,667	657	1,245,602	1,936	2,124,746	4,811
UNITED STATES	2,093,474	4,778	1,440,960	3,323	1,892,776	4,073	1,869,271	5,123
SOUTH AFRICAN UNION	-	-	210,758	579	-	-	40,011	123
<b>TOTAL</b>	553,074	961	1,194,447	3,076	228,775	1,970	1,237,083	3,780
ARGENTINA	191,298	296	373,491	1,016	339,017	952	579,931	1,262
UNITED STATES	42,804	295	443,158	935	211,251	747	153,320	795
PORTUGAL	199,131	354	160,127	660	128,568	280	195,479	494

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	1926		1930		1934		1938	
	KILOG	OUNCES	KILOG	OUNCES	KILOG	OUNCES	KILOG	OUNCES
<b>TOTAL</b>	26,864	582	439,580	934	70,385	564	80,379	199
GERMANY	24,244	85	4,101	62	7,534	82	5,949	119
UNITED STATES	10,604	45	18,540	154	4,701	34	1,556	15
FRANCE	11,737	56	4,282	106	1,371	56	353	2
GREAT BRITAIN	129,727	313	289,408	542	24,716	200	1,474	15
<b>TOTAL</b>	29,992	102,537	1,688	12,006	7,766	57,871	9,629	101,334
GERMANY	17	149	4	32	44	1,240	442	5,836
UNITED STATES	24,705	91,473	1,163	9,955	7,546	55,577	9,047	33,834
FRANCE	254	2,031	47	544	12	126	5	127
GREAT BRITAIN	43	1,671	13	200	51	653	80	250
ITALY	407	4,317	245	1,173	-	-	-	-
<b>TOTAL</b>	6,260	25,406	254	3,142	7,407	50,726	128	2,766
GERMANY	62	1,443	15	183	60	1,054	41	1,346
UNITED STATES	5,600	19,346	145	2,045	7,054	45,625	72	1,475
FRANCE	44	406	1	10	129	-	-	-
GREAT BRITAIN	79	1,305	28	507	129	714	3	57
<b>TOTAL</b>	-	-	-	-	-	-	11	87
GERMANY	-	(Included in - Passenger Motor Cars)	-	-	-	-	6	39
UNITED STATES	-	-	-	-	-	-	5	48
<b>TOTAL</b>	-	-	-	-	-	-	7,773	73,612
GERMANY	-	-	-	-	-	-	131	3,341
UNITED STATES	-	(Included in - Motor Trucks)	-	-	-	-	7,492	67,733
GREAT BRITAIN	-	-	-	-	-	-	104	1,863
<b>TOTAL</b>	-	-	-	-	-	-	5	504
GERMANY	-	-	-	-	-	-	2	142
UNITED STATES	-	(Included in - Railway Cars & Wagons)	-	-	-	-	2	44
GREAT BRITAIN	-	-	-	-	-	-	1	78
<b>TOTAL</b>	KILOG	KILOG	KILOG	KILOG	KILOG	KILOG	KILOG	KILOG
GERMANY	44,196	24,459	2,669,735	13,737	2,285,842	14,457	1,251,149	16,007
UNITED STATES	5,164,112	22,070	2,457,060	11,479	2,030,977	939	34,933	784
GREAT BRITAIN	81,420	741	85,244	1,202	99,545	916	1,174,209	14,094
<b>TOTAL</b>	5,289,728	27,270	5,212,039	26,418	4,416,364	1,962	2,460,391	30,885
GERMANY	1,862	625	54,273	726	34,236	566	53,159	1,343
UNITED STATES	31,064	363	48,290	337	23,700	340	24,841	804
GREAT BRITAIN	4,699	625	54,273	726	34,236	566	53,159	1,343

(3)

	1926		1932		1933		1934	
	KILOG	UNITS	KILOG	UNITS	KILOG	UNITS	KILOG	UNITS
<u>AIR &amp; MOTOR VEHICLES</u>								
TOTAL	-	-	-	-	-	-	852,430	3,867
GERMANY	-	-	-	-	-	-	14,083	194
UNITED STATES	-	-	(Included in - Motor Car Accessories)		-	-	779,706	3,358
GRAND BRITAIN	-	-	-	-	-	-	39,788	3,667
<u>AIRCRAFT</u>								
TOTAL	UNITS	-	UNITS	76	9,940	37	6,596	97
GERMANY	-	-	3	449	5	3,548	4	6,097
UNITED STATES	-	-	80	4,784	24	2,106	78	10,540
FRANCE	-	-	44	4,539	2	182	-	-
GRAND BRITAIN	-	-	0	47	6	761	15	1,991
ITALY	-	-	3	81	-	-	0	-
<u>AIRCRAFT ACCESSORIES</u>								
TOTAL	KILOG	2,890	205	96,549	5,763	43,794	4,863	55,414
GERMANY	254	8	16,460	999	6,344	745	10,247	1,381
UNITED STATES	3,577	51	21,505	1,662	33,015	3,504	20,378	3,051
FRANCE	2,932	68	47,996	3,315	-	-	3,769	419
GRAND BRITAIN	47	1	6,487	787	995	149	894	88
<u>ACCESSORIES TO AIRPLANE MOTORS</u>								
TOTAL	-	-	-	-	-	-	4,798	1,319
GERMANY	-	-	-	-	-	-	186	86
UNITED STATES	-	-	-	-	-	-	3,958	1,099
FRANCE	-	-	(Included in - Aircraft Accessories)		-	-	143	35
GRAND BRITAIN	-	-	-	-	-	-	414	133
<u>AIRPLANE MOTORS</u>								
TOTAL	-	-	-	-	-	-	89,453	5,975
GERMANY	-	-	-	-	-	-	6,628	1,773
UNITED STATES	-	-	-	-	-	-	19,580	4,750
FRANCE	-	-	(Included in - Aircraft Accessories)		-	-	2,694	1,237
GRAND BRITAIN	-	-	-	-	-	-	444	134
<u>INSULATORS AND BRACKETS</u>								
TOTAL	8,401	47	12,875	92	2,322	32	4,554	41
GERMANY	780	5	2,549	14	144	4	4,107	35
UNITED STATES	3,813	21	8,543	64	1,427	17	395	5
GRAND BRITAIN	4,876	80	1,877	11	649	10	58	1
<u>ADMINISTRATIVE MACHINERY - UNDESIGNATED</u>								
TOTAL	734,766	1,453	357,626	1,447	591,534	1,444	703,124	3,407
GERMANY	196,482	536	99,930	237	25,537	237	275,444	2,549
UNITED STATES	344,361	807	214,057	217	336,097	3,089	181,069	1,074
FRANCE	28,691	40	56,049	290	422	3,543	-	-
GRAND BRITAIN	107,995	343	80,183	50	15,928	70	205,509	1,410
<u>PILOTS</u>								
TOTAL	805,823	1,153	661,900	1,204	964,125	1,605	694,172	2,665
GERMANY	365,860	427	131,078	104	102,019	329	232,491	824
UNITED STATES	326,487	607	513,271	995	441,166	1,223	425,965	1,661

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	1926		1930		1934		1939	
	EURO	CONV	EURO	CONV	EURO	CONV	EURO	CONV
<u>FLOW PIPES</u>								
TOTAL	3,130	3	2,991	4	381	2	5,645	31
GERMANY	-	-	2,028	2	15	1	-	-
UNITED STATES	1,102	2	963	1	366	1	5,630	30
<u>PIPE PARTS - TERMINATED</u>								
TOTAL	63,669	104	71,945	142	50,343	146	182,104	643
GERMANY	16,337	21	36,375	62	25,125	62	14,461	60
UNITED STATES	44,332	78	35,570	79	25,218	70	167,643	583
<u>TRACTORS &amp; PARTS FOR AGRICULTURAL USE</u>								
TOTAL	476,923	1,543	334,203	1,242	428,936	2,606	612,140	3,439
UNITED STATES	331,723	1,102	311,447	1,580	340,131	2,445	511,615	4,508
GREAT BRITAIN	60,379	89	74,974	312	7,069	54	47,589	404
GERMANY	35,443	267	3,782	26	10	1	30,066	344
<u>FLOODING APPARATUS - TERMINATED</u>								
TOTAL	636,251	305	948,420	1,803	454,934	1,291	541,499	1,410
GERMANY	266,866	413	293,311	394	94,949	271	94,294	376
UNITED STATES	264,199	405	612,113	1,414	286,206	805	220,699	943
<u>TRUCKS &amp; PARTS</u>								
TOTAL	132,731	739	186,262	1,046	344,040	3,236	79,447	556
UNITED STATES	161,534	632	175,467	1,004	333,669	2,913	79,540	554
GREAT BRITAIN	22,179	84	84,216	6	22,552	294	-	-
GERMANY	4,505	17	3,450	21	3,475	26	-	-
<u>DIRT</u>								
TOTAL							55,393	495
GERMANY							31,176	275
UNITED STATES							22,215	198
GREAT BRITAIN							1,740	22
<u>OTHER DIRT AND ACCESSORIES</u>								
TOTAL							1,610,680	15,782
GERMANY							1,509	56
UNITED STATES							1,597,669	15,028
GREAT BRITAIN							44,842	609
<u>OTHER PARTS AND ACCESSORIES</u>								
TOTAL							1,040,199	4,349
GERMANY							342,773	1,493
UNITED STATES							544,769	2,170
GREAT BRITAIN							152,617	686
<u>TRUCKS FOR OTHER USES AND ACCESSORIES</u>								
TOTAL							661,108	4,695
GERMANY							304,790	3,260
UNITED STATES							227,768	913
GREAT BRITAIN							75,451	499
<u>TRUCKS</u>								
TOTAL	22,187	63	75,733	234	29,945	115	118,025	12
GERMANY	409	1	254	1	1,173	4	2,473	14
UNITED STATES	27,291	61	70,776	219	27,297	108	113,637	97

(5)	1926		1927		1928		1929	
	KILOM	SQUARE	KILOM	SQUARE	KILOM	SQUARE	KILOM	SQUARE
<u>WIRELINES</u>								
TOTAL	71,435	154	39,601	103	53,701	193	23,496	91
UNITED STATES	54,062	116	34,971	99	51,719	136	19,549	76
<u>WILLS - DEMONSTRATED</u>								
TOTAL	509,580	1,601	433,525	1,742	140,045	1,448	66,354	3,754
GERMANY	76,536	272	351,492	1,354	17,200	193	227,239	2,442
UNITED STATES	195,604	446	20,808	144	15,084	135	23,216	308
GREAT BRITAIN	119,163	536	34,027	129	85,629	367	41,393	367
ARGENTINA	1,408	5	783	10	4,004	8	47,400	397
<u>RAILWAY CARS AND WAGONS</u>								
TOTAL	39,969,973	44,081	5,323,544	9,994	4,827,232	10,162	1,758	40,340
GERMANY	2,413,994	6,944	202,207	690	-	-	10	47
BELGIUM	28,476,674	28,041	2,569,112	2,804	2,646,831	4,033	1,278	25,233
UNITED STATES	1,123,311	2,137	297,454	391	1,044	85	-	-
FRANCE	3,929,966	3,675	-	-	-	-	-	-
GREAT BRITAIN	3,403,519	3,087	2,429,849	5,993	2,179,357	6,104	470	25,860
<u>RAILWAY ACCUMULATED - DEMONSTRATED</u>								
TOTAL						KILOM		2,875
GERMANY						10,463		28
UNITED STATES						74,550		351
GREAT BRITAIN			(Included in - Railway Cars & Wagons)			159,521		696
BELGIUM						90,606		200
<u>TRAMWAYS AND ACCUMULATED</u>								
TOTAL						137,660		758
GERMANY						1,060		4
UNITED STATES			(Included in - Railway Cars & Wagons)			57,280		363
GREAT BRITAIN						79,320		349
<u>DUMP CARS FOR MINES AND FARMS</u>								
TOTAL						1,220,442		2,930
GERMANY						89,289		396
UNITED STATES						188,290		505
GREAT BRITAIN			(Included in - Railway Cars & Wagons)			163,808		296
BELGIUM						634,040		1,497
<u>AXLE, WHEELS AND EQUIPMENTS FOR RAILWAY CARS &amp; WAGONS</u>								
TOTAL	14,405,679	17,009	5,435,387	7,173	4,875,096	6,403	7,727,930	14,143
GERMANY	2,504,103	1,337	403,094	312	341,647	355	3,491,231	4,343
BELGIUM	3,226,446	2,079	1,031,234	805	1,594,824	1,391	1,146,237	1,660
UNITED STATES	7,689,261	4,644	1,337,022	1,477	404,337	1,048	563,434	1,471
GREAT BRITAIN	4,711,633	4,630	2,159,873	3,729	1,405,977	3,527	1,976,337	5,195
<u>LOCOMOTIVES</u>								
TOTAL	12,425,647	40,332	6,421,996	13,409	3,136,775	4,179	10	25,614
GERMANY	6,361,477	29,514	612,967	1,644	401,649	2,164	32	19,794
UNITED STATES	5,440,613	19,141	664,486	3,406	197,195	1,449	6	4,624
GREAT BRITAIN	476,276	1,638	3,109,314	6,478	477,091	3,595	2	1,203



	1956		1950		1954		1955	
	1956	1950	1950	1954	1954	1955	1955	1956
ACCUMULATED FOR ACCUMULATED (NETTY WILLIAMS)								
<b>TOTAL</b>							560,962	4,896
GERMANY							125,673	2,079
UNITED STATES							142,437	1,835
GREAT BRITAIN							45,773	696
(Included in - Investments)								
<b>SCISSORS</b>								
<b>TOTAL</b>	557,410	2,378	220,656	1,252	109,506	1,141	156,949	1,479
GERMANY	176,105	312	95,406	350	12,407	249	48,878	447
UNITED STATES	110	1	13,406	233	25,757	291	1,195	55
GREAT BRITAIN	92,996	370	80,099	429	24,510	303	47,648	526
<b>HYDRAULIC PUMPS</b>								
<b>TOTAL</b>	440,217	1,746	264,454	1,595	146,590	1,644	297,034	4,139
GERMANY	131,990	428	80,453	509	49,333	693	147,237	1,916
UNITED STATES	151,131	838	76,161	574	27,373	256	78,245	1,137
GREAT BRITAIN	57,744	480	47,861	261	36,531	336	31,563	287
<b>OTHER HYDRAULIC - INCLUDING AIR COMPRESSORS</b>								
<b>TOTAL</b>							567,695	8,713
GERMANY							142,562	2,313
UNITED STATES							328,649	4,476
GREAT BRITAIN							62,213	928
<b>BOILERS</b>								
<b>TOTAL</b>	2,575,347	4,627	1,754,502	5,498	1,126,018	4,673	1,516,244	6,620
GERMANY	348,118	751	69,528	140	34,423	612	205,455	1,808
UNITED STATES	303,156	784	544,625	2,537	46,351	107	141,265	702
GREAT BRITAIN	1,134,620	1,968	680,129	1,522	966,779	4,102	948,269	3,952
<b>WELDS AND WELDERS - GENERAL</b>								
<b>TOTAL</b>	6,333,898	27,101	1,416,840	11,269	1,151,109	14,718	4,430,394	22,349
GERMANY	1,889,903	7,738	690,404	4,964	420,525	5,774	575,587	9,043
UNITED STATES	1,005,502	7,044	343,809	3,363	312,985	4,578	426,434	5,478
GREAT BRITAIN	2,661,958	9,750	221,061	1,578	257,112	2,298	1,360,209	1,948
<b>HEAVY DUTY PUMPS, ETC.</b>								
<b>TOTAL</b>			2,741,614	8,620	4,703,537	19,332	4,430,394	22,349
GERMANY			395,118	3,075	1,015,679	4,436	1,097,617	9,315
UNITED STATES		(Included in - Boilers & Welders)	139,593	733	309,252	1,960	322,043	2,289
GREAT BRITAIN			1,544,051	4,566	3,228,260	12,483	2,145,106	10,363
<b>INDUSTRIAL MACHINERY (GENERAL)</b>								
<b>TOTAL</b>	2,331,298	29,718	7,371,733	28,337	6,129,309	44,642	12,059,680	62,478
GERMANY	2,407,446	8,206	800,711	4,366	1,537,331	17,052	2,439,342	22,479
UNITED STATES	876,623	3,316	2,598,873	10,246	1,309,643	7,756	7,396,344	22,614
GREAT BRITAIN	2,058,133	7,269	1,596,108	5,830	1,709,449	9,092	328,449	3,834
HOLLAND	166,949	494	1,563,109	4,675	65,430	731	83,508	1,296
GERMANY	2,331	10	784	4	79,282	248	977,596	3,725
<b>VEHICULAR MACHINERY &amp; ACCESSORIES</b>								
<b>TOTAL</b>			879,156	9,066	406,328	9,651	342,335	7,807
GERMANY		(Included in - Machinery (General))	436,234	4,564	103,147	1,418	228,047	5,778
UNITED STATES			110,252	3,509	217,345	6,380	69,157	3,057

(7)

	1926		1930		1933		1935	
	KILO	TONNES	KILO	TONNES	KILO	TONNES	KILO	TONNES
<u>MACHINERY &amp; ACCESSORIES FOR ROAD CONSTRUCTION ETC.</u>								
<b>TOTAL</b>							686,993	7,005
GERMANY							2,906	29
UNITED STATES							684,087	6,986
<u>MACHINERY FOR HIGHWAYS ETC. NOT SPECIFIED</u>								
<b>TOTAL</b>							277,134	2,665
GERMANY							57,720	538
UNITED STATES							162,180	1,514
GREAT BRITAIN							30,382	294
<u>MACHINERY FOR OFFICES - NOT SPECIFIED</u>								
<b>TOTAL</b>							1,604,825	24,257
GERMANY							967,011	14,429
UNITED STATES							254,894	5,939
GREAT BRITAIN							117,966	1,308
<u>MACHINERY UNDESIGNATED</u>								
<b>TOTAL</b>	20,397,702	27,072	11,749,651	67,736	6,805,897	63,974	2,696,816	27,460
GERMANY	8,219,669	29,765	3,482,685	16,078	1,893,239	18,489	988,521	12,158
UNITED STATES	3,425,078	26,805	3,522,170	26,273	2,133,770	26,964	836,151	7,495
GREAT BRITAIN	3,830,743	13,094	2,879,896	11,514	1,523,886	10,753	535,941	3,832
<u>STEEL IN BARS AND ROHS</u>								
<b>TOTAL</b>	6,033,156	5,520	3,781,506	3,625	4,229,198	6,370	5,159,073	9,394
GERMANY	1,134,866	1,177	782,152	948	1,077,677	2,218	2,429,788	5,374
BELGIUM	1,506,370	642	500,755	308	351,052	319	755,795	716
UNITED STATES	991,396	839	368,212	307	217,667	284	267,162	279
GREAT BRITAIN	1,621,285	1,501	1,966,743	1,731	2,187,046	2,563	1,588,811	2,558
<u>STEEL PLATES</u>								
<b>TOTAL</b>	2,273,366	1,335	2,029,720	1,171	2,014,225	1,735	2,947,514	4,442
GERMANY	198,882	76	64,877	49	367,905	376	824,540	1,178
BELGIUM	299,390	105	557,441	269	117,930	66	171,878	201
UNITED STATES	721,427	590	177,066	173	534,795	494	1,118,393	1,893
GREAT BRITAIN	797,955	490	168,055	599	969,167	710	819,769	979
<u>STEEL FOR TOOLS, SPRINGS, AXLES, RIMS, ETC.</u>								
<b>TOTAL</b>							386,749	1,210
GERMANY							41,416	269
BELGIUM							82,542	295
UNITED STATES							1,637	34
GREAT BRITAIN							139,808	499
SWITZERLAND							46,306	117
<u>IRON &amp; STEEL IN ROHS AND SHEETS</u>								
<b>TOTAL</b>							1,276,802	2,779
GERMANY							406,339	1,099
UNITED STATES							305,593	532
GREAT BRITAIN							365,885	944

2039



	1926		1930		1934		1935	
	IRON	STEEL	IRON	STEEL	IRON	STEEL	IRON	STEEL
<b>TOTAL</b>	10,805,293	15,108	470,255	4,389	16,376,428	19,994	30,785,767	28,128
UNITED STATES	888,013	522	293,357	29	859,445	811	817,264	803
GERMANY	12,053,946	3,312	3,355,708	1,635	6,346,303	4,479	13,074,812	10,613
IRELAND	25,882,714	6,578	14,379,980	4,550	24,612,417	12,135	14,876,309	5,081
IRELAND	2,128,815	547	1,837,982	615	1,629,999	495	1,029,971	782

<b>IRON - PLATES &amp; SHEETS</b>								
<b>TOTAL</b>	20,250,505	10,330	11,547,593	5,950	22,358,055	17,896	28,092,304	25,658
GERMANY	4,660,362	1,934	1,064,374	614	1,514,273	1,247	15,066,372	13,329
IRELAND	6,333,590	2,512	6,746,112	2,531	10,922,854	6,504	4,535,433	3,492
UNITED STATES	5,119,280	4,337	974,389	969	5,222,133	4,710	6,567,143	6,839
IRELAND	2,545,289	1,761	2,115,641	1,534	5,022,520	5,228	1,737,888	2,706

<b>WALFABLING SHEETS</b>								
<b>TOTAL</b>			6,212,409	4,692	6,782,312	5,781	6,804,853	4,431
GERMANY			1,164,836	570	211,969	163	3,686,562	4,659
IRELAND	(Included in - Plates & Sheets)		395,267	583	2,256,501	1,441	703,363	774
UNITED STATES			2,740,100	2,447	3,393,491	2,954	2,245,472	2,346
IRELAND			1,147,675	893	910,828	815	137,022	175

<b>IRON IN RODS AND STRIPS</b>								
<b>TOTAL</b>						13,301,522		14,474
GERMANY						8,450,789		9,598
UNITED STATES						643,392		663
IRELAND		(Included in - Iron & Steel Unenumerated)				3,332,836		3,379
IRELAND						628,387		610

<b>PIG OR CAST IRON</b>								
<b>TOTAL</b>	16,230,589	3,217	1,953,680	514	723,852	412	499,789	422
GERMANY	241,540	217	504,543	54	70,364	31	151,737	124
UNITED STATES	11,440	8	1,728	1	26,921	6	-	-
IRELAND	5,356,025	1,163	1,594,278	407	281,485	80	172,720	69
FRANCE	4,115,272	786	4,177	19	50,000	46	50,800	67
IRELAND	3,079,729	586	46,585	16	77,120	49	40,640	58

<b>UNFABRICATED INDUSTRIAL IRON &amp; STEEL SHAPES</b>								
<b>TOTAL</b>						8,712,446		6,789
GERMANY						1,324,233		1,644
IRELAND						4,504,341		3,119
UNITED STATES		(Included in - Pig & Cast Iron)				1,081,770		867
IRELAND						598,052		435

<b>IRON &amp; STEEL FILINGS</b>								
<b>TOTAL</b>			82,662	197	23,159	130	44,504	143
GERMANY			40,300	97	4,307	28	26,746	70
IRELAND		(Included in Pig & Cast Iron)	15,224	31	7,957	73	7,823	80
UNITED STATES			8,887	42	1,561	21	821	8

<b>IRON &amp; STEEL UNENUMERATED</b>								
<b>TOTAL</b>			547,322	437	860,800	897	574,230	1,279
GERMANY			113,582	81	74,872	177	64,954	232
IRELAND		(Included in Pig & Cast Iron)	204,828	163	304,248	174	160,165	179
UNITED STATES			14,504	35	138,503	234	140,968	494
IRELAND			154,806	103	250,140	153	124,618	167

(9)

	1926		1932		1934		1935	
	KILO	TON	KILO	TON	KILO	TON	KILO	TON
<b>TOTAL</b>	30,442,465	15,984	21,538,053	10,129	20,790,826	16,289	20,323,598	29,327
GERMANY	12,775,307	6,422	5,139,676	2,897	6,049,556	4,813	6,422,313	10,518
BELGIUM	10,013,446	4,899	6,456,561	3,665	4,644,625	3,258	5,597,829	5,448
UNITED STATES	5,122,171	3,344	7,229,079	4,017	8,446,515	6,476	5,537,044	5,228
HOLLAND	572,409	316	2,126,900	1,177	1,269,042	973	342,050	479
<b>PIPE - SHEET BARS</b>								
<b>TOTAL</b>	21,028,466	10,213	20,551,113	10,928	20,621,946	20,120	29,437,594	35,999
GERMANY	10,317,023	5,309	9,584,245	4,991	11,126,141	10,474	15,325,580	21,109
UNITED STATES	1,335,157	783	1,211,572	810	5,464,205	4,541	4,495,230	4,211
BELGIUM	6,572,291	2,480	4,160,222	2,195	6,127,665	4,493	5,922,403	3,935
HOLLAND	169,996	80	3,582,069	1,468	1,179,949	990	2,394,932	3,044
<b>IRON GALVANIZED CORRUGATED SHEETS</b>								
<b>TOTAL</b>	12,365,146	11,348	6,324,386	7,213	6,375,851	6,067	405,105	494
UNITED STATES	5,568,928	5,245	3,681,453	3,452	3,697,073	3,405	299,429	326
GREAT BRITAIN	6,083,227	5,630	3,093,721	3,325	1,675,903	1,752	46,278	68
<b>CORRUGATED SHEETS FOR BUILDING PURPOSES, ETC.</b>								
<b>TOTAL</b>						4,380,392		5,933
GERMANY						202,428		319
UNITED STATES			(Included in - Iron Galvanized Corrugated Sheets)			2,065,524		2,706
GREAT BRITAIN						1,686,175		2,296
<b>IRON &amp; STEEL COLUMNS</b>								
<b>TOTAL</b>	539,216	9,439	302,349	6,222	70,714	4,143	124,353	2,443
GERMANY	354,367	5,488	277,500	4,035	51,769	3,056	140,727	6,467
UNITED STATES	33,682	1,666	14,464	1,379	2,656	299	17,922	924
FRANCE	107,347	1,228	36,541	495	3,473	205	2,054	128
GREAT BRITAIN	16,466	475	14,227	173	4,081	299	25,997	446
<b>MANUFACTURE OF TIN PLATE</b>								
<b>TOTAL</b>	55,318	395	34,651	296	31,040	351	37,821	634
GERMANY	25,694	240	17,362	173	10,783	170	15,441	275
UNITED STATES	17,484	120	11,170	89	19,331	167	19,796	320
GREAT BRITAIN	7,026	36	4,099	24	632	8	2,109	30
<b>TIN PLATE IN SHEETS</b>								
<b>TOTAL</b>	16,191,582	14,100	24,160,946	23,193	29,975,566	35,417	31,220,733	54,315
GERMANY	141,629	131	41,697	63	4,769,665	5,523	5,757,429	11,461
UNITED STATES	4,927,705	4,534	3,622,106	3,748	12,156,044	14,053	10,636,607	14,076
GREAT BRITAIN	11,074,219	9,349	20,046,279	14,925	4,346,084	10,628	5,993,365	9,906
HOLLAND	-	-	2,513	2	3,790,663	4,326	6,261,062	12,925
BELGIUM	-	-	3,210	2	903,260	1,011	2,655,477	4,941
<b>IRON PIPE/STAINLESS PIPE MANUFACTURE</b>								
<b>TOTAL</b>	15,270,548	7,645	12,154,419	7,943	9,671,090	4,446	10,265,254	15,726
GERMANY	3,347,322	1,407	468,469	212	943,664	697	5,480,656	1,011
BELGIUM	5,644,602	1,528	5,120,602	1,926	8,117,014	3,640	3,376,716	2,990
UNITED STATES	1,953,799	1,784	3,305,967	3,735	163,144	216	1,567,124	2,312
GREAT BRITAIN	1,564,825	1,197	1,943,623	1,397	312,475	196	106,388	296

2033



(10)

1926

1930

1938

1939

## TUBES, PIPES AND JOINTS

	1926	1930	1938	1939	1926	1930	1938	1939
TOTAL	40,118,640	27,893	22,490,806	25,803	21,799,947	22,571	22,795,317	24,139
GERMANY	7,730,007	6,066	2,220,353	2,731	3,075,307	5,139	2,300,334	17,403
IRELAND	11,733,921	5,686	7,280,572	4,799	4,091,315	7,962	6,794,621	5,805
UNITED STATES	5,341,939	5,437	4,346,791	5,222	3,955,309	5,661	2,801,297	6,567
GREAT BRITAIN	5,406,144	4,770	5,261,627	5,629	4,122,617	6,469	4,585,496	7,373
HOLLAND	1,040,969	634	1,122,741	1,300	1,945,179	2,503	2,422,135	3,613

## Flexible Tubes of Iron &amp; Steel.

TOTAL						204,369		904
GERMANY						194,545		807
UNITED STATES	(Included in - Tubes, Pipes & Joints)					1,680		26
GREAT BRITAIN						8,084		70

## IRON STANCHIONS FOR CARBON LIGHTS BARS

TOTAL						2,753,493		5,649
GERMANY						641,649		1,297
UNITED STATES	(Included in - Tubes, Pipes & Joints)					2,095,653		5,216
GREAT BRITAIN						16,082		78

## RAILS, FLYWHEELS AND RAILWAY ACCESSORIES

TOTAL	127,600,397	44,904	54,177,094	26,605	49,494,349	51,179	23,669,520	45,352
GERMANY	9,252,157	4,312	1,319,093	452	23,249,212	13,494	7,100,744	5,902
IRELAND	-	-	-	-	-	-	14,603,756	10,737
UNITED STATES	22,155,494	9,686	2,065,147	4,245	51,303,901	28,325	5,763,336	5,427
IRELAND	56,146,865	16,594	16,754,552	7,014	7,259,234	4,511	13,627,908	12,212
GERMANY	15,997,978	4,427	649,496	383	557,716	492	5,445,294	4,215
GREAT BRITAIN	9,493,113	4,376	27,074,257	13,405	2,221,429	2,122	6,235,207	5,994

## TRUCKS &amp; WHEELS

TOTAL						1,535,255		2,576
GERMANY						352,555		539
IRELAND	(Included in - Rails, Flywheels & Railway Accessories)					644,477		313
UNITED STATES						538,223		35

## STEELWORK &amp; WELDED STEEL &amp; TUBES FOR BRIDGES &amp; PILES

TOTAL	7,462,044	7,797	11,454,514	13,000	2,483,587	4,462	590,282	973
UNITED STATES	7,711,640	3,202	1,470,771	2,367	59,082	112	20,457	171
GREAT BRITAIN	1,044,129	2,189	3,594,952	4,631	451,017	564	320,934	519
HOLLAND	495,028	289	761,282	577	109,700	70	92,740	161

## MANUFACTURE OF IRON &amp; STEEL - UNDETERMINED

TOTAL	12,332,014	23,900	14,920,157	27,615	7,226,128	22,721	2,959,301	15,772
GERMANY	3,331,536	6,572	2,269,765	5,752	1,325,595	4,527	1,026,345	6,322
IRELAND	1,374,268	907	1,367,022	1,254	1,457,612	2,004	213,274	590
UNITED STATES	3,222,228	7,112	6,228,999	12,372	2,319,396	4,623	772,052	3,425
GREAT BRITAIN	2,222,974	5,196	2,572,372	4,574	2,066,202	5,162	641,832	2,965

## LEAD, ZINC, TUNGSTEN, COPPER

TOTAL	3,786,175	5,007	3,622,922	3,310	2,396,644	7,416	7,921,779	11,227
GERMANY	325,232	445	224,327	303	123,230	124	99,992	302
UNITED STATES	1,713,972	2,401	769,383	752	1,374,570	1,151	1,932,706	2,672
GREAT BRITAIN	715,422	1,009	611,013	769	1,212,775	1,495	909,352	936
CANADA	203,430	253	164,242	199	2,095,512	1,650	1,532,424	1,260
SPAIN	609,383	746	1,674,344	1,560	2,425,646	2,007	3,374,242	4,425

	1926		1930		1933		1935	
	KILO	GRAMS	KILO	GRAMS	KILO	GRAMS	KILO	GRAMS
<u>WIRE IN BARS, RODS, SHEETS &amp; PLATES</u>								
<b>TOTAL</b>	425,753	4,109	548,158	4,354	750,963	11,200	786,549	15,829
GERMANY	40,337	446	80,315	161	23,893	365	11,459	260
UNITED STATES	11,070	96	108,062	718	11,305	104	16,778	201
GRAND BRITAIN	557,558	3,286	378,984	2,699	566,285	8,539	471,193	9,563
<u>COPPER PLATES OR SHEETS</u>								
<b>TOTAL</b>	1,739,750	5,458	1,334,355	5,253	2,053,487	7,464	9,353,953	35,056
GERMANY	584,593	2,896	481,959	1,514	468,158	1,861	2,555,498	11,734
UNITED STATES	55,642	226	25,686	156	11,210	59	3,580,691	11,760
IRELAND	84,414	89	82,629	317	109,497	361	351,564	1,357
FRANCE	260,684	600	24,675	107	18,871	59	24,573	119
GRAND BRITAIN	371,253	1,162	684,785	2,810	1,464,409	136	774,595	156
<u>COPPER CASTINGS, MOLDS, FILINGS, ETC.</u>								
<b>TOTAL</b>	3,637,131	9,231	2,847,087	8,570	4,533,565	11,737	864,556	2,790
GERMANY	507,790	1,335	122,258	317	395,211	1,011	5,266	33
UNITED STATES	2,658,035	6,411	2,351,991	6,944	1,853,381	3,415	706,941	2,893
GRAND BRITAIN	368,204	1,009	899,635	1,009	953,775	2,694	51,162	334
<u>COPPER WIRE (EXCEPT ELECTRIC WIRE)</u>								
<b>TOTAL</b>	247,066	840	115,817	595	106,505	621	31,552	689
GERMANY	75,113	254	87,661	174	53,395	353	49,867	416
UNITED STATES	35,640	162	17,372	94	1,909	36	1,347	33
GRAND BRITAIN	50,080	177	45,456	178	31,452	118	11,188	57
<u>THEATRED COPPER WIRE</u>								
<b>TOTAL</b>	695,076	2,774	777,805	3,470	803,563	1,423	844,993	2,304
GERMANY	144,905	493	190,289	810	28,127	261	110,428	691
IRELAND	78,809	192	139,122	512	116,233	265	50,447	284
UNITED STATES	197,477	997	184,959	1,212	33,259	497	51,289	893
GRAND BRITAIN	80,223	343	185,388	670	16,246	110	26,628	271
<u>MANUFACTURES OF COPPER</u>								
<b>TOTAL</b>	555,689	1,453	512,409	1,072	804,383	5,391	110,939	2,860
GERMANY	170,541	2,509	127,043	2,209	83,262	2,563	47,296	1,254
UNITED STATES	126,956	1,668	170,595	2,057	61,366	1,296	39,978	826
FRANCE	86,353	294	29,294	568	4,158	108	1,720	169
GRAND BRITAIN	97,508	1,009	116,554	1,694	35,181	240	11,818	306
<u>RADIO APPARATUS &amp; ATTACHMENTS (TELEGRAPHIC)</u>								
<b>TOTAL</b>			210,383	5,448	4,932	381	122,694	9,100
GERMANY			28,339	892	138	21	9,156	1,828
UNITED STATES			138,045	2,936	210	15	9,516	617
GRAND BRITAIN			32,054	1,014	2,128	313	45,380	3,411
HOLLAND			2,502	33	2,496	32	37,250	3,333
<u>RADIO APPARATUS</u>								
<b>TOTAL</b>					677,987	17,123	740,122	16,208
GERMANY					12,830	54	16,373	1,931
UNITED STATES					530,589	13,983	479,335	21,899
GRAND BRITAIN					10,775	921	22,384	2,345
HOLLAND					124,593	1,476	180,969	9,127

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	1925		1930		1933		1934	
	KGOS	TONS	KGOS	TONS	KGOS	TONS	KGOS	TONS
<u>RADIO TUBES</u>								
<b>TOTAL</b>					8,495	1,804	15,254	4,828
GERMANY					394	110	303	809
UNITED STATES	(Included in - Radio Apparatus & Attachments)							
GREAT BRITAIN					7,954	1,508	12,258	2,998
HOLLAND					169	158	246	296
SWEDEN					237	50	1,962	679
<u>RADIO ACCESSORIES (EXCEPT TUBES)</u>								
<b>TOTAL</b>					19,263	3,061	134,414	5,451
GERMANY					15,225	792	12,793	768
UNITED STATES	(Included in - Radio Apparatus & Attachments)							
GREAT BRITAIN					44,626	1,797	95,194	4,495
HOLLAND					3,673	226	17,722	243
SWEDEN					9,859	230	10,005	241
<u>ELECTRIC REFRIGERATORS</u>								
<b>TOTAL</b>					714,993	8,023	1,140,889	17,141
GERMANY					19,221	226	8,648	248
UNITED STATES	(Included in - Machinery for Electricity & Electric Light)							
GREAT BRITAIN					680,436	7,513	1,056,896	15,544
HOLLAND					2,838	43	27,481	398
SWEDEN					1,428	18	54,443	785
<u>REFRIGERATOR ACCESSORIES</u>								
<b>TOTAL</b>							131,403	1,708
GERMANY							290	17
UNITED STATES	(Included in - Machinery for Electricity & Electric Light)							
GREAT BRITAIN							41,784	1,134
HOLLAND							87,160	507
<u>MECHANICAL PUMPING MACHINERY, AIR CONDITIONING &amp; ACCESSORIES</u>								
<b>TOTAL</b>							147,321	2,122
GERMANY							1,953	49
BELGIUM	(Included in - Machinery for Electricity & Electric Light)							
UNITED STATES							2,365	56
FRANCE							128,690	1,453
HOLLAND							4,963	58
<u>MACHINERY FOR ELECTRICITY &amp; ELECTRIC LIGHT</u>								
<b>TOTAL</b>	4,701,250	33,782	4,357,686	51,683	1,450,502	42,507	1,588,797	52,141
GERMANY	1,214,574	5,900	739,179	5,382	467,443	7,789	336,301	6,451
BELGIUM	76,856	281	406,968	9,148	289,638	15,954	309,086	21,382
UNITED STATES	2,131,474	17,040	2,093,183	22,294	577,946	10,515	687,923	17,564
FRANCE	134,137	1,095	79,770	1,143	11,931	939	4,002	805
GREAT BRITAIN	670,190	2,771	555,011	6,355	200,037	3,739	172,244	3,725
HOLLAND	15,477	128	124,031	1,432	1,091	39	2,654	127
SWEDEN	72,982	731	90,348	1,347	111,604	2,116	21,498	608
<u>HAND OPERATED MACHINERY &amp; ELECTRICAL APPARATUS FOR INDUSTRIAL USE</u>								
<b>TOTAL</b>							144,960	3,410
GERMANY							57,445	1,005
UNITED STATES	(Included in - Machinery for Electricity & Electric Light)							
HOLLAND							57,073	1,770

	1926		1930		1934		1935	
	KGMS	TONNES	KGMS	TONNES	KGMS	TONNES	KGMS	TONNES
<u>MACHINERY AND EQUIPMENT</u>								
<b>TOTAL</b>	1,280,317	6,160	764,005	6,295	635,740	7,796	2,134,413	27,585
GERMANY	476,286	1,470	222,178	1,505	227,689	2,475	634,397	10,721
UNITED STATES	461,050	2,041	294,142	3,152	164,339	2,342	456,636	7,089
GRAT BRITAIN	52,501	579	89,750	745	126,265	1,374	117,467	2,802
SWEDEN	60,009	847	67,329	374	85,376	886	106,601	4,245
<u>MACHINERY &amp; EQUIPMENT FOR DOMESTIC USE</u>								
<b>TOTAL</b>							47,399	4,004
GERMANY							9,402	322
UNITED STATES		(Included in - Machinery Domesticated)					13,843	947
GRAT BRITAIN							1,406	22
SWEDEN							57,006	2,943
<u>MACHINERY</u>								
<b>TOTAL</b>	112,505	4,594	132,211	6,409	119,666	3,615	95,313	3,152
GERMANY	42,677	1,492	77,005	3,249	19,079	1,394	2,443	378
UNITED STATES	4,310	547	12,222	314	1,470	145	1,784	322
HOLLAND	37,785	2,174	35,709	2,444	465	60	343	106
JAPAN	107	3	3,936	143	90,422	1,368	83,951	1,650
SWEDEN	50	1	-	-	5,403	343	5,715	372
<u>MACHINERY EXPORTS</u>								
<b>TOTAL</b>	1,905,582	8,262	1,025,622	7,574	540,344	6,199	780,604	10,060
GERMANY	543,115	1,633	118,541	864	84,132	1,547	211,751	3,129
UNITED STATES	346,252	2,396	372,067	3,221	103,315	1,446	197,525	3,136
GRAT BRITAIN	431,211	1,385	124,924	1,490	131,569	1,585	172,742	1,922
SWEDEN	129,492	479	73,570	385	149,950	220	4,544	64
<u>MACHINERY TRANSPORTATION</u>								
<b>TOTAL</b>	1,317,156	5,049	2,317,104	11,803	395,311	6,317	891,420	9,603
GERMANY	310,105	722	197,594	925	67,946	992	250,526	3,075
UNITED STATES	636,417	3,333	1,427,622	7,790	125,346	1,033	191,903	2,844
GRAT BRITAIN	114,219	599	454,451	1,946	74,909	452	227,052	1,972
SWEDEN	56,326	252	125,437	608	112,112	644	134,367	913
<u>IRON &amp; STEEL FURNITURE</u>								
<b>TOTAL</b>	345,411	1,535	244,334	1,341	54,124	747	41,214	447
GERMANY	41,257	131	27,446	104	3,123	43	19,951	72
UNITED STATES	140,047	493	212,269	1,212	50,716	712	21,156	369
GRAT BRITAIN	89,495	400	1,904	9	12,441	156	3,455	21
<u>STEEL ARCHIVES &amp; CASES</u>								
<b>TOTAL</b>							39,453	911
GERMANY							22	2
UNITED STATES		(Included in Iron & Steel Furniture)					20,432	460
GRAT BRITAIN							16,113	444
<u>TYPING MACHINES</u>								
<b>TOTAL</b>	226,424	6,976	110,636	3,492	190,072	5,252	213,233	14,051
GERMANY	32,567	744	43,277	849	29,894	1,585	55,447	1,732
UNITED STATES	222,671	5,705	64,412	2,544	127,974	7,162	129,700	9,018

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	1924		1930		1934		1935	
	KILO	TONNE	KILO	TONNE	KILO	TONNE	KILO	TONNE
<u>CALCULATING MACHINES</u>								
<b>TOTAL</b>			219,053	4,127	53,577	5,904	39,885	7,504
GERMANY			57,019	1,140	9,504	882	8,540	1,715
UNITED STATES			76,607	1,008	56,890	4,872	44,142	5,489
<u>DUPLICATION &amp; REGISTER MACHINES</u>								
<b>TOTAL</b>						106,948	6,653	
GERMANY						10,679	675	
UNITED STATES						89,905	5,609	
<u>PRINTED BOOKS, YEARBOOKS, PERIODICALS, MAPS, ETC.</u>								
<b>TOTAL</b>	912,231	4,778	571,353	4,499	401,603	6,458	406,950	4,035
GERMANY	38,487	798	154,146	740	85,476	572	23,775	589
UNITED STATES	265,644	1,275	133,403	794	85,684	1,127	85,732	1,350
FRANCE	164,406	1,416	210,348	1,162	90,534	943	38,689	1,454
SPAIN	521	5	-	-	40,903	823	41,468	1,080
ITALY	94,857	255	32,542	401	39,952	1,013	50,435	1,315
<u>PRINTED MATR. POSTCARD, CALENDAR</u>								
<b>TOTAL</b>	393,726	2,174	522,547	3,569	355,123	1,914	114,655	4,148
GERMANY	77,743	419	27,298	387	7,148	307	10,780	462
UNITED STATES	178,911	867	320,412	2,139	126,372	919	75,941	6,758
GREAT BRITAIN	84,674	418	96,432	589	5,129	344	6,864	895
FRANCE	21,580	167	75,958	222	16,834	310	6,889	446
<u>PAPER, UNPREPARED</u>								
<b>TOTAL</b>	4,406,315	1,224	3,323,624	8,437	2,535,906	7,707	554,537	8,499
GERMANY	1,231,133	2,581	1,013,898	2,672	535,015	1,764	56,685	506
UNITED STATES	372,059	1,189	489,668	1,513	1,109,633	2,348	222,780	775
<u>STATIONERY FOR SCHOOLS &amp; OFFICES</u>								
<b>TOTAL</b>	297,120	1,237	285,824	2,224	234,236	4,670	59,218	1,116
GERMANY	125,301	4,539	96,950	1,144	60,597	1,962	17,463	504
UNITED STATES	52,885	782	54,957	780	25,272	1,469	9,604	294
<u>SEWING MACHINES</u>								
<b>TOTAL</b>	1,909,345	12,260	2,631,130	21,384	1,892,054	23,009	2,580,240	45,337
GERMANY	559,051	3,749	1,050,162	9,168	601,122	7,663	854,525	14,851
UNITED STATES	1,025,174	7,162	1,546,136	11,425	1,064,531	14,837	1,054,425	14,869
CANADA	-	-	-	-	156,374	2,085	615,479	10,562
<u>TEXTILES - WOOL</u>								
<b>TOTAL</b>	105,373	778	58,377	574	5,987	67	4,473	140
GERMANY	30,956	233	5,258	50	472	11	897	28
UNITED STATES	19,640	142	28,110	140	1,387	17	2,963	50
FRANCE	16,672	220	1,459	30	121	10	853	28
<u>MANUFACTURE OF WOOD</u>								
<b>TOTAL</b>	406,472	2,069	382,502	1,488	354,423	2,190	299,544	2,647
GERMANY	71,661	362	39,091	231	15,252	122	12,855	393
UNITED STATES	69,891	119	179,345	396	19,232	195	15,700	263
GREAT BRITAIN	145,278	890	55,683	307	48,859	809	34,869	273
FINLAND	1,613	26	34,530	148	21,729	1,067	222,571	1,444

(15)

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>MOTION PICTURE MACHINES</u>								
TOTAL	27,186	422	31,277	824	11,519	559	9,498	1,001
GERMANY	21,571	249	16,441	570	8,344	385	5,040	548
UNITED STATES	2,111	88	11,063	419	1,264	86	2,452	241
FRANCE	4,550	77	3,530	34	---	---	---	---
HOLLAND	---	---	31	1	1,567	45	1,347	145

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>MOTION PICTURE FILMS</u>								
TOTAL	37,606	4,320	29,497	2,739	29,657	7,494	54,728	9,102
GERMANY	1,415	57	3,002	314	2,046	1,144	3,814	1,979
UNITED STATES	32,711	4,064	25,056	2,234	25,147	4,793	27,693	4,942
FRANCE	2,572	119	868	116	1,359	601	1,402	1,056

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>MOTION PICTURE SOUND APPARATUS &amp; ACCESSORIES</u>								
TOTAL	---	---	---	---	---	---	750	98
GERMANY	---	---	---	---	---	---	314	33
UNITED STATES	---	---	---	---	---	---	192	49

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>MOTION PICTURE ACCESSORIES</u>								
TOTAL	4,434	79	5,627	210	2,102	113	4,093	323
GERMANY	1,608	19	1,974	78	1,126	68	2,727	194
UNITED STATES	510	23	2,969	110	734	32	531	61
HOLLAND	---	---	---	---	208	11	436	55

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>PHOTOGRAPHIC APPARATUS &amp; ACCESSORIES</u>								
TOTAL	327,055	4,182	24,475	1,046	15,488	1,043	26,202	2,634
GERMANY	116,369	1,432	15,943	359	8,915	764	11,279	1,789
UNITED STATES	47,498	1,412	6,626	290	4,788	256	14,405	823
FRANCE	49,800	667	1,539	444	---	---	17	3

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>PHOTOGRAPHIC DRY PLATES &amp; SENSITIZED FILMS, NOT EXPOSED</u>								
TOTAL	---	---	217,508	4,053	261,972	7,536	219,537	11,282
GERMANY	---	---	150,495	2,405	151,605	4,596	133,171	6,898
UNITED STATES	---	---	17,856	1,155	44,646	1,575	44,860	3,212

	1926		1930		1934		1935	
	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS	KILOG	CONTOS
<u>PHOTOGRAPHIC PAPER</u>								
TOTAL	---	---	106,708	1,589	81,806	2,549	189,505	3,868
GERMANY	---	---	28,527	485	31,510	1,371	29,272	1,441
UNITED STATES	---	---	35,770	705	23,269	551	29,117	932
BELGIUM	---	---	31,709	202	17,268	388	58,009	1,022

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	1928		1930		1934		1935	
	KGMS	QUNTS	KGMS	QUNTS	KGMS	QUNTS	KGMS	QUNTS
<u>RUBBER MATERIAL FOR INSTALLATION</u>								
<b>TOTAL</b>							27,535	663
UNITED STATES							2,043	49
GERMANY							10,233	253
(Included in - Rubber Not Specified)								
<u>RUBBER MATERIAL FOR MECHANICAL INSTALLATIONS</u>								
<b>TOTAL</b>							4,171	136
UNITED STATES							3,905	120
GERMANY							266	16
(Included in - Rubber Not Specified)								
<u>RUBBER MATERIAL FOR MACHINES, APPARATUS &amp; TRUCKS</u>								
<b>TOTAL</b>							139,666	1,125
UNITED STATES							92,708	542
GREAT BRITAIN							20,086	183
(Included in - Rubber Not Specified)								
<u>RUBBER TUBES</u>								
<b>TOTAL</b>							7,637	537
UNITED STATES							4,889	260
GERMANY							1,373	144
(Included in - Rubber Not Specified)								
<u>RUBBER SERVICES FOR LANDGRAVES (Commercial)</u>								
<b>TOTAL</b>							20,103	994
UNITED STATES							6,705	255
GERMANY							10,201	538
(Included in - Rubber Not Specified)								
<u>RUBBER TAPS</u>								
<b>TOTAL</b>	33,272	1,037	25,263	931	20,515	598	19,404	808
GERMANY	13,083	460	10,107	424	1,683	63	2,525	109
UNITED STATES	4,266	153	3,407	139	5,251	235	5,226	337
GREAT BRITAIN	7,895	253	10,270	336	8,560	273	3,542	218
<u>RUBBER SHIMS &amp; SCOTCH</u>								
<b>TOTAL</b>	18,629	257	37,607	531	35,995	564	24,756	629
GERMANY	4,425	64	14,093	263	16,354	342	15,125	436
UNITED STATES	10,696	184	15,769	175	8,998	82	4,317	102
<u>RUBBER TIES &amp; LEAD TIES</u>								
<b>TOTAL</b>	3,225,708	29,679	3,226,260	24,446	3,290,349	26,119	183,388	2,092
GERMANY	9,286	70	16,906	118	73,382	740	3,380	57
CANADA	285,880	2,067	181,090	1,346	-	-	10,396	108
UNITED STATES	1,221,001	10,126	2,223,691	16,308	1,777,020	14,353	102,448	1,117
FRANCE	1,194,918	12,492	63,010	752	100,184	1,023	15,478	202
GREAT BRITAIN	478,022	4,257	400,246	3,354	754,936	4,904	40,112	455
ITALY	49,035	192	274,638	2,260	466,517	4,883	9,508	135
<u>READY RUBBER</u>								
<b>TOTAL</b>	66,043	556	76,802	598	28,958	309	38,624	434
UNITED STATES	20,628	176	33,498	252	5,544	63	10,390	123
GREAT BRITAIN	23,361	216	32,304	258	17,036	150	15,354	51
<u>RUBBER GASKETS</u>								
<b>TOTAL</b>			5,252	47	3,999	76	4,926	124
GERMANY			569	10	1,001	22	578	15
UNITED STATES		(Included in - Rubber Not Specified)	2,578	40	1,107	26	3,204	74
GREAT BRITAIN			2,845	37	1,058	28	772	25

	1928		1930		1934		1935	
	KILO	COPIES	KILO	COPIES	KILO	COPIES	KILO	COPIES
<b>SUPPLY BOOK</b>								
<b>TOTAL</b>	109,047	1,033	126,972	1,067	97,506	1,065	65,434	354
GERMANY	38,093	392	34,635	347	6,405	117	7,345	223
UNITED STATES	44,664	413	74,332	657	66,349	603	44,434	603
GRAND BRITAIN	14,327	93	24,775	157	20,500	285	4,154	64
<b>SOLID SUPPLY TITERS</b>								
<b>TOTAL</b>	269,705	1,021	62,144	235	33,090	129	17,042	131
UNITED STATES	192,600	794	44,779	157	15,094	44	9,330	66
<b>WINDMILL TITERS</b>								
<b>TOTAL</b>							3,440,468	39,705
GERMANY							88,356	1,443
FRANCE							235,529	3,869
UNITED STATES							1,496,828	20,252
GRAND BRITAIN							630,662	6,606
ITALY							278,941	3,855
NETHERLANDS							85,910	1,492
<b>MANUFACTURE OF SILK - UNDEVELOPED</b>								
<b>TOTAL</b>	227,824	4,028	205,941	3,774	157,428	3,770	62,533	1,820
GERMANY	43,716	1,190	36,500	1,077	40,709	1,340	18,442	801
UNITED STATES	74,456	944	96,065	1,121	63,737	915	27,574	435
FRANCE	35,122	646	21,352	635	4,742	362	2,129	216
GRAND BRITAIN	45,452	779	35,222	544	21,843	503	3,900	143
ITALY	17,120	320	11,701	245	15,872	408	2,441	79
<b>COTTON YARNS</b>								
<b>TOTAL</b>	1,627,321	22,836	956,621	15,267	1,390,644	23,235	1,229,021	36,742
GERMANY	75,673	1,160	22,242	407	2,730	107	8,299	490
UNITED STATES	343,465	5,433	39,449	800	487	9	417	24
GRAND BRITAIN	1,119,183	15,490	697,108	13,224	1,344,875	22,395	1,191,853	34,600
<b>SILK YARN &amp; THREAD FOR WEAVING, HOSIERY</b>								
<b>TOTAL</b>	250,303	24,134	434,829	32,443	772,674	43,449	446,969	40,004
GERMANY	13,785	762	34,556	1,354	14,743	1,622	53	11
UNITED STATES	21,001	2,444	36,592	4,356	90,117	5,493	101,563	4,758
FRANCE	196,711	1,757	75,352	5,622	91,901	4,022	15,171	1,944
ITALY	160,152	15,743	147,472	14,962	416,730	24,042	277,809	23,371
SWITZERLAND	7,246	894	57,470	3,550	133,723	5,947	20,794	2,153
<b>WINDMILL SILK THREAD FOR WEAVING</b>								
<b>TOTAL</b>					254,218	6,299	423,964	13,173
GERMANY					40,302	1,040	70,704	2,644
UNITED STATES					9,161	295	4,104	114
FRANCE					55,628	1,673	199,660	7,392
ITALY					70,131	1,743	161,399	2,551
SWITZERLAND					18,944	546	16,996	520
NETHERLANDS					29,872	499	2,528	179



	1928		1930		1934		1935	
	TONS	TONS	TONS	TONS	TONS	TONS	TONS	TONS
<u>SIZE FROM OR ARTIFICIAL SIZE</u>								
<b>TOTAL</b>							46,704	4,005
GERMANY							8,557	309
UNITED STATES							5,008	63
FRANCE							21,443	1,014
ITALY							10,639	349
NETHERLANDS							6,448	89
<u>ARTIFICIAL SIZE WEAVER FOR MANUFACTURE</u>								
<b>TOTAL</b>							1,961	89
GERMANY							1,608	81
UNITED STATES							343	43
FRANCE							10	73
GREAT BRITAIN								
<u>SIZE OF ARTIFICIAL SIZE FIBRE</u>								
<b>TOTAL</b>							15,367	895
GERMANY							129	3
UNITED STATES							3,048	35
FRANCE							7,154	808
ITALY							5,000	54
<u>DIAGONAL</u>								
<b>TOTAL</b>			109,420	1,447	24,853	354	27,366	609
GERMANY			19,774	221	1,347	40	2,263	74
UNITED STATES			44,512	545	16,466	888	14,349	189
GREAT BRITAIN			31,227	358	6,100	88	8,754	55
<u>FINE WOOD - BRANCHED</u>								
<b>TOTAL</b>	1,343,704	19,794	146,933	3,648	47,103	2,020	13,043	709
GERMANY	24,360	463	6,570	888	1,674	80	652	32
UNITED STATES	22,761	333	12,604	225	336	5	22.8	3
FRANCE	76,121	895	14,217	312	371	19	564	51
GREAT BRITAIN	1,156,122	16,514	86,398	2,064	21,103	694	8,604	431
<u>FINE WOOD - UNBRANCHED</u>								
<b>TOTAL</b>	46,120	375	15,601	226	3,697	26	17,763	343
GERMANY	17,121	215	7,093	92	254	2	162	12
UNITED STATES	4,892	33	1,959	10	5	-	9	-
FRANCE	1,746	23	348	14	212	7	32	2
GREAT BRITAIN	21,862	298	6,510	109	3,480	12	17,542	308
<u>PRINTED FINE WOOD</u>								
<b>TOTAL</b>	521,845	13,743	192,852	6,447	29,546	945	14,412	374
GERMANY	7,454	224	9,577	463	1,508	117	303	22
UNITED STATES	104,784	1,172	47,342	1,503	487	14	451	10
FRANCE	57,436	1,287	39,540	1,376	1,728	63	122	26
GREAT BRITAIN	352,916	9,127	72,338	2,837	13,618	469	9,699	419
<u>2ND FINE WOOD</u>								
<b>TOTAL</b>	4,730,108	26,978	793,722	17,089	250,457	7,404	17,448	2,991
GERMANY	53,520	1,337	39,468	1,246	20,204	299	11,430	377
UNITED STATES	100,129	1,262	49,950	720	319	9	192	12
GREAT BRITAIN	4,096,108	23,507	511,154	9,474	121,221	4,255	47,927	1,508
FRANCE	232,958	4,570	54,087	1,325	2,800	513	1,222	154

	1926		1933		1934		1935	
	KILOG	TONNES	KILOG	TONNES	KILOG	TONNES	KILOG	TONNES
<u>COTTON FIBRE GOODS - NOT SPECIFIED</u>								
<u>TOTAL</u>	651,970	12,585	189,687	4,271	155,227	4,842	85,251	2,435
GERMANY	80,818	1,585	25,158	706	22,344	1,135	18,349	1,054
UNITED STATES	78,905	1,872	32,724	454	38,440	951	45,535	785
FRANCE	94,341	1,915	25,574	715	3,465	368	2,420	147
GREAT BRITAIN	875,722	5,566	62,912	1,375	69,458	1,574	13,697	308
<u>COTTON FIBRE</u>								
<u>TOTAL</u>							66,172	2,575
GERMANY							9,568	513
UNITED STATES							14	1
FRANCE							2,652	154
GREAT BRITAIN							10,452	534
<u>COTTON &amp; BLENDED MIXTURE</u>								
<u>TOTAL</u>							62,001	2,015
GERMANY							2,902	89
UNITED STATES							5,349	233
FRANCE							583	58
GREAT BRITAIN							47,573	1,440
<u>TEXTILE MANUFACTURES - NOT SPECIFIED</u>								
<u>TOTAL</u>	574,063	5,627	280,434	5,569	234,487	4,668	31,541	590
GERMANY	69,404	1,218	55,568	1,132	19,499	1,189	11,795	342
UNITED STATES	145,902	1,812	41,819	694	132,305	1,702	11,233	334
FRANCE	66,924	1,182	7,615	719	3,022	185	787	70
GREAT BRITAIN	235,817	4,586	101,608	2,510	45,805	1,134	5,230	150
<u>MANUFACTURES OF COTTON &amp; BLENDED</u>								
<u>TOTAL</u>							285,540	4,428
GERMANY							17,199	289
UNITED STATES							195,060	2,677
GREAT BRITAIN							57,172	605
JAPAN							51,137	627
<u>WOOLLEN</u>								
<u>TOTAL</u>	735,470	2,115	632,778	2,020	671,015	2,154	438,501	1,854
UNITED STATES	375,808	593	294,683	893	293,429	945	275,827	1,158
GREAT BRITAIN	199,341	697	203,196	766	254,479	874	101,766	432
GERMANY	78,372	226	71,958	262	38,855	137	49,252	219
<u>SERVICES</u>								
<u>TOTAL</u>	158,551,568	81,301	279,495,146	139,173	264,685,848	86,868	276,328,461	132,662
UNITED STATES	120,704,059	65,834	128,215,726	81,534	115,950,964	45,325	129,221,200	74,825
MEXICO	30,807,449	14,418	59,044,748	23,965	43,369,344	13,663	28,425,840	13,023
PERU	-	-	72,337,672	25,829	82,132,194	20,223	67,264,931	24,040
DUTCH ANTILLES	-	-	-	-	-	-	50,435,339	19,267
<u>LUBRICANT OILS &amp; SYNTHETIC LUBRICANTS</u>								
<u>TOTAL</u>	642,301	662	930,430	1,209	1,154,745	1,581	544,222	1,286
UNITED STATES	727,895	706	772,188	940	1,104,870	1,465	350,293	778
GREAT BRITAIN	544,090	- 96	48,272	70	14,351	37	12,979	39
MEXICO	-	-	69,252	89	25,975	41	154,708	148

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July

1932                      1933                      1934                      1935

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**TOTAL**

AMOUNT							
UNITED STATES						804,143	425
UNITED STATES						1,734	16
UNITED STATES						196,773	374
UNITED STATES						1,796	10
UNITED STATES						3,467	19

(Included in - Lubricant Division & Synthetic Lubricants)

<b>TOTAL</b>	51,021,052	40,559	50,465,355	46,842	53,368,633	48,870	93,888,786	65,411
UNITED STATES	74,675,596	35,802	65,465,619	35,850	70,350,495	38,234	67,584,093	51,069
MEXICO	11,910,014	5,021	19,053,284	9,204	15,181,609	8,364	16,587,738	10,879
OTHER	-	-	4,348,374	1,004	7,578,345	1,396	8,180,001	3,535

**LUBRICATING OILS**

<b>TOTAL</b>	34,649,434	25,205	34,561,277	27,395	34,304,091	28,645	34,550,427	45,226
UNITED STATES	28,944,745	20,772	21,787,144	24,716	28,023,153	25,348	30,889,197	40,465
UNITED STATES	988,435	372	1,107,516	1,304	1,179,175	1,758	1,259,514	1,946
MEXICO	4,548,711	3,805	1,449,734	952	2,051,079	1,398	2,449,258	2,228

**MINERAL OILS FOR LUBRICATION**

**FINISHABLE MINERAL OILS & SYNTHETIC LUBRICANTS**

<b>TOTAL</b>							41,049	154
UNITED STATES							24,477	66
UNITED STATES							15,612	87

Included in - Lubricating Oils.

**MINERAL OILS NOT SPECIFIED**

<b>TOTAL</b>							661,203	678
UNITED STATES							282,448	327
UNITED STATES							15,486	30
UNITED STATES							11,309	11
UNITED STATES							400,000	269

(Included in Lubricating Oils)

**MINERAL TUNG OIL**

<b>TOTAL</b>	21,594,940	25,440	374,456,577	42,138	451,960,181	49,760	436,712,496	69,222
UNITED STATES	74,752,674	9,469	35,027,576	7,445	2,319,587	909	12,079,974	3,478
MEXICO	96,588,642	9,357	2,414,340	1,142	119,225,256	18,496	125,976,398	18,561
UNITED STATES	46,759,607	4,624	19,384,580	30,613	-	-	-	-
UNITED STATES	-	-	-	-	326,949,623	34,415	290,114,351	40,640

**GRADED MINERAL**

<b>TOTAL</b>	814,442	1,072	902,473	1,004	792,747	1,253	1,114,253	2,178
UNITED STATES	291,536	1,027	324,703	525	778,017	1,184	1,103,709	2,134
UNITED STATES	12,442	29	50,122	51	10,457	217	8,615	21

**OTHER PRODUCTS**

<b>AMOUNT</b>							2,376,190	1,453
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**CRACK**

<b>TOTAL</b>	1,771,504	111,027	1,745,626	118,526	1,079,549	24,395	1,314,692	136,332
UNITED STATES	11,757	726	5,932	491	69,872	5,456	196,458	22,772
UNITED STATES	1,065,073	70,425	106,159	13,482	92,016	6,787	70,396	5,879
UNITED STATES	651,463	34,596	1,362,358	92,973	646,746	34,194	631,947	69,921
UNITED STATES	5,725	194	169,396	10,648	225,528	17,134	333,145	29,607

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(m)	1926		1930		1934		1935	
	KILO	OUNCE	KILO	OUNCE	KILO	OUNCE	KILO	OUNCE
<b>TOTAL</b>	<u>396,322</u>	44,419	<u>584,503</u>	67,225	<u>125,702</u>	15,517	<u>114,154</u>	17,351
GERMANY	127,146	14,857	73,185	9,625	11,974	1,557	60,578	9,343
BELGIUM	63,562	6,966	85,065	10,134	17,252	1,733	18,854	2,405
DENMARK	66,927	7,107	83,908	9,845	12,232	1,658	4,122	881
UNITED STATES	2,154	575	2,594	1,009	2,254	854	751	444
GREAT BRITAIN	36,941	4,439	45,507	5,440	42,047	4,355	18,656	2,539
SUWAY	11,925	1,356	1,340	154	6,743	798	528	71
SWEDEN	49,561	5,380	55,968	6,287	18,751	2,167	2,910	420
<b>ARTIFICIAL RESINCES &amp; ESSENTIAL OILS</b>								
<b>TOTAL</b>	81,760	3,393	94,517	4,156	116,675	11,672	55,099	9,351
GERMANY	16,474	639	20,585	769	21,624	1,546	13,553	1,575
UNITED STATES	10,595	177	11,682	251	30,956	473	2,580	328
FRANCE	35,482	1,713	23,330	1,905	12,821	3,630	12,277	3,124
GREAT BRITAIN	9,429	353	11,750	427	23,770	2,410	12,810	1,624
HOLLAND	3,696	178	20,238	319	6,082	740	3,561	424
<b>TOWNSHIPS</b>								
<b>TOTAL</b>	1,620,893	2,621	2,042,043	2,745	2,227,399	3,319	801,446	1,882
GERMANY	1,639	7	134,200	132	1,586	7	2,777	13
UNITED STATES	1,582,674	2,525	1,884,117	2,473	1,534,111	2,258	354,672	1,300
GREAT BRITAIN	31,801	72	23,224	50	6,785	26	1,290	6
<b>OTHER DISTILLATES</b>								
<b>TOTAL</b>							2,285,909	4,324
GERMANY							79,272	425
UNITED STATES							2,096,785	3,353
BELGIUM		Included in - Turpentine					81,279	440
GREAT BRITAIN							22,887	66
<b>NATURAL RESINCES - DILUTED &amp; NOT DILUTED</b>								
<b>TOTAL</b>							20,044	2,250
GERMANY							4,364	462
UNITED STATES							4,858	477
FRANCE		Included in 9 Artificial Resinces & Essential Oils					3,536	716
GREAT BRITAIN							3,405	331
<b>RESINS OR TURPINE OILS</b>								
<b>TOTAL</b>	336,472	4,437	326,158	7,821	630,716	36,723	816,430	54,951
GERMANY	120,375	1,645	24,706	621	28,799	1,325	106,511	7,438
UNITED STATES	44,451	411	26,255	247	90,093	1,254	133,273	3,577
HOLLAND	80,563	305	177,878	5,099	314,635	22,502	379,510	12,914
SWITZERLAND	68,583	1,270	46,001	1,308	99,942	6,532	102,514	9,045
<b>BRAND PAINTS FOR METALS &amp; METALLIC FINISHES</b>								
<b>TOTAL</b>							338,444	1,425
GERMANY							29,156	123
UNITED STATES		(Included in - Paints Unenumerated)					130,282	457
HOLLAND							127,693	573
SWITZERLAND							46,000	206

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	1928		1930		1934		1935	
	KILOS	TONNES	KILOS	TONNES	KILOS	TONNES	KILOS	TONNES
<b>TANNINS</b>								
<b>TOTAL</b>	331,142	1,821	269,593	1,374	155,477	1,298	123,442	1,493
UNITED STATES	209,060	302	164,405	539	71,040	481	72,380	537
GREAT BRITAIN	116,609	374	87,256	503	37,363	296	43,659	294
GERMANY	17,440	205	14,613	202	14,613	168	12,078	263
<b>PAINTS - UNREFINED</b>								
<b>TOTAL</b>	1,633,373	5,643	1,327,403	5,333	897,029	5,288	86,123	764
UNITED STATES	659,370	2,232	379,392	2,290	496,036	3,967	47,142	487
GREAT BRITAIN	974,998	2,079	592,730	1,465	280,696	-	31,689	251
<b>GLASS</b>								
<b>TOTAL</b>	3,307,833	1,144	4,800,019	1,515	10,800,066	4,150	13,694,457	6,366
GERMANY	210,403	89	636,463	237	1,444,033	775	2,046,542	1,498
UNITED STATES	2,409,993	582	1,325,496	460	2,504,786	988	749,013	374
ITALY	1,002,991	394	1,481,513	493	890,507	172	2,128,778	846
CHINA	-	-	-	-	5,770,461	1,813	7,890,686	3,664
<b>ROBIN</b>								
<b>TOTAL</b>	37,772	14,602	18,740	15,544	13,457	11,428	6,740	9,312
UNITED STATES	17,670	14,330	14,490	13,309	9,412	7,134	4,640	9,019
<b>CAPRIC BOCA</b>								
<b>TOTAL</b>	15,277,309	10,026	17,683,331	14,396	23,470,353	25,213	23,112,675	30,582
GERMANY	4,720,983	1,030	634,306	413	59,749	128	506,168	1,093
UNITED STATES	2,605,279	1,403	4,003,414	2,938	4,144,234	7,156	5,677,940	6,592
GREAT BRITAIN	4,645,753	6,833	14,337,637	10,968	15,247,643	17,909	16,103,258	22,230
<b>TANNIN</b>								
<b>TOTAL</b>	204,740	668	154,394	389	325,417	880	373,621	1,431
GERMANY	16,753	34	12,495	26	804	6	21,333	94
UNITED STATES	141,744	520	127,386	293	294,080	763	344,095	1,425
RUSSIA	4,343	6	7,360	16	13,557	61	4,499	78
<b>SCIENTIFIC CHEMICAL PRODUCTS - UNREFINED</b>								
<b>TOTAL</b>	12,245,399	37,529	6,385,374	23,410	7,083,874	45,121	345,747	4,527
GERMANY	4,817,589	10,492	4,575,284	4,573	1,528,439	12,086	176,173	5,119
UNITED STATES	1,136,269	3,323	527,424	3,014	679,998	4,401	30,036	373
FRANCE	924,040	2,733	485,735	5,445	372,598	9,272	24,322	613
GREAT BRITAIN	3,590,844	6,335	1,209,428	3,768	2,105,252	5,745	42,793	300
HOLLAND	663,773	1,148	1,252,730	2,989	574,178	3,744	25,003	742
RUSSIA	349,107	247	803,269	483	1,185,719	3,972	61,961	1,203
<b>INDUSTRIAL CHEMICAL PRODUCTS</b>								
<b>TOTAL</b>								
GERMANY						7,244,149		19,332
RUSSIA						1,366,253		6,033
UNITED STATES						1,179,428		3,333
GREAT BRITAIN						893,642		4,228
HOLLAND						2,490,967		4,272
						92,765		1,126
<b>DRUGS - UNREFINED</b>								
<b>TOTAL</b>	41,572	1,154	13,609	543	24,669	2,764	31,395	3,499
GERMANY	19,889	261	2,942	88	4,472	495	13,414	1,300
UNITED STATES	13,224	664	7,603	496	19,180	2,173	17,285	1,982

(4)

	1926		1930		1934		1935	
	<u>KGMS</u>	<u>DMOS</u>	<u>KGMS</u>	<u>DMOS</u>	<u>KGMS</u>	<u>DMOS</u>	<u>KGMS</u>	<u>DMOS</u>
<u>ACQUISITION INVESTMENTS</u>								
<b>TOTAL</b>	67,695	1,438	123,007	3,343	95,948	6,834	38,338	3,110
GERMANY	26,569	670	30,476	1,189	60,074	4,587	14,107	1,394
UNITED STATES	20,343	419	66,442	1,041	28,909	1,398	10,047	1,148
GRAND BRITAIN	3,865	446	7,743	573	2,044	877	3,334	889
<u>RETIRED &amp; TRADING MACHINES</u>								
<b>TOTAL</b>	6,632,029	19,492	1,151,362	5,739	2,455,335	14,493	2,015,514	22,350
ITALY	69,612	846	33,349	160	114,619	755	175,597	2,611
GERMANY	719,741	2,229	837,703	985	370,752	3,612	807,320	9,049
UNITED STATES	66,101	914	26,588	402	182,518	825	49,807	834
GRAND BRITAIN	5,170,498	14,662	630,054	2,492	1,354,196	5,903	623,636	5,180
<u>SCUM</u>								
<b>TOTAL</b>	1,789,543	3,445	107,371	334	310,099	1,034	346,071	1,467
GERMANY	201,414	568	12,747	47	72,460	438	185,775	1,055
UNITED STATES	-	-	12,146	57	34,449	274	71	9
GRAND BRITAIN	1,122,964	1,866	43,390	127	142,625	309	159,395	400
<u>ACQUISITION FOR TRADING MACHINES</u>								
<b>TOTAL</b>	1,905,316	12,431	721,844	6,261	1,318,179	16,309	1,489,231	15,443
GERMANY	80,376	860	44,753	707	132,461	2,612	134,666	4,316
UNITED STATES	57,939	404	14,633	352	117,447	234	633,735	1,451
GRAND BRITAIN	1,374,883	2,841	415,751	3,552	818,492	10,098	539,110	6,751
<u>SKIN, HIDE, TANNED &amp; OTHERWISE PREPARED</u>								
<b>TOTAL</b>	1,113,986	31,338	350,562	14,021	230,812	12,360	12,448	1,429
GERMANY	116,408	6,710	88,968	6,284	106,695	7,450	5,547	565
UNITED STATES	281,228	10,950	90,474	5,061	21,046	1,817	345	28
ARGENTINA	345,492	5,200	61,052	1,430	39,333	946	1,570	121
<u>SKIN, LEATHER &amp; GRAINIS SKINS</u>								
<b>TOTAL</b>			10,874	1,395	4,141	651	13,443	2,473
UNITED STATES			213	71	234	28	507	76
FRANCE			746	93	545	102	1,491	500
GERMANY	(Included in - Skins, Hides, Tanned & Otherwise prepared.)		5,774	1,021	984	170	10,351	1,784
ITALY			-	-	1,113	137	440	135
GRAND BRITAIN			2,287	177	542	76	147	30
<u>FURS</u>								
<b>TOTAL</b>							5,082	4,043
UNITED STATES							808	1,061
GERMANY	(Included in - Skins, Hides, Tanned & Other wise prepared.)						1,290	405
FRANCE							1,287	970
GRAND BRITAIN							1,339	1,379
<u>FURS - FURS, STAMPS, ETC.</u>								
<b>TOTAL</b>							142,356	11,617
UNITED STATES							7,856	770
GERMANY	(Included in - Skins, Hides, Tanned & Otherwise prepared.)						125,118	10,136
GRAND BRITAIN							1,406	147
FRANCE							1,660	121



	1926		1930		1934		1935	
	KILO	CONTR.	KILO	CONTR.	KILO	CONTR.	KILO	CONTR.
<b>TOTAL</b>	192,003	2,910	148,133	2,341	13,405	332	15,168	395
GERMANY	34,678	598	28,323	469	588	81	1,944	59
UNITED STATES	128,344	1,835	84,140	1,305	6,534	176	3,485	112
GREAT BRITAIN	23,867	397	33,734	534	3,430	82	3,190	53
JAPAN	7	---	---	---	2,397	38	5,708	109
<b>PHOTOGRAPH EQUIPMENT</b>								
<b>TOTAL</b>	73,864	1,343	64,532	1,289	12,593	270	17,393	400
GERMANY	11,757	145	13,639	334	1,819	67	2,179	99
UNITED STATES	51,947	1,075	36,650	679	5,195	104	6,799	146
GREAT BRITAIN	4,549	47	8,200	209	2,976	62	3,263	76
JAPAN	355	7	1,019	22	2,331	32	4,582	114
<b>PIPE PLANKS, BOARDS, etc.</b>								
<b>TOTAL</b>	6,445,819	1,774	3,682,985	1,250	363,405	258	348,141	411
GERMANY	21,724	12	119,435	75	17,850	31	18,383	51
UNITED STATES	6,391,069	1,739	3,478,682	1,088	288,061	177	305,978	346
SWITZ.	---	---	81,040	75	3,000	4	24,780	30
<b>WOODEN - FURNITURE - BATHS, PLANKS, TRIMMING</b>								
<b>TOTAL</b>	888,211	275	476,855	606	348,127	972	298,238	776
GERMANY	458,082	121	24,560	54	31,215	71	31,581	79
UNITED STATES	259,581	43	410,882	495	266,630	771	228,707	618
GREAT BRITAIN	40,892	75	19,551	23	36,388	71	1,976	6
<b>WOOLY FIBRE &amp; WASTE FIBRE</b>								
<b>TOTAL</b>	85,655	210	59,154	185	118,000	366	72,237	273
GERMANY	20,508	32	13,606	34	28,974	108	85,841	90
UNITED STATES	30,329	113	8,120	41	25,099	112	17,480	109
GREAT BRITAIN	22,377	40	31,501	78	37,180	80	20,504	48
<b>WATERPROOF, WOOLY CLOTH, etc.</b>								
<b>TOTAL</b>	181,679	774	125,147	728	191,728	1,670	146,342	2,264
GERMANY	46,983	158	63,835	279	94,088	616	105,318	899
UNITED STATES	41,348	285	25,901	268	49,155	686	58,470	1,069
GREAT BRITAIN	52,137	213	30,632	147	28,636	140	19,671	196
<b>WOOLY FIBRE &amp; WASTING FIBRE</b>								
<b>TOTAL</b>					221,331	1,903		
GERMANY					96,631	707		
UNITED STATES					61,282	635		
ITALY					13,669	144		
<b>WOODEN - FURNITURE, ETC.</b>								
<b>TOTAL</b>	1,160,148	4,488	753,921	3,583	664,485	4,440	690,348	5,883
GERMANY	695,085	2,994	537,469	2,752	496,096	3,729	536,007	5,009
UNITED STATES	231,538	902	59,321	402	14,426	116	12,639	245
SWITZ.	110,058	145	119,794	179	169,547	443	98,094	203

January 12, 1939

Coast Guard Communications

A. Lochhead  
Technical Assistant to the Secretary

Please transmit the following to Secretary Morgenthau:

"The following is the message we propose sending to  
Brasil. Taylor"

(Message attached)



"This Government believes that Minister Aranha should be prepared to discuss in detail all aspects of the subjects included in the communication which Minister Sousa Costa sent to Secretary Morgenthau on December 2, 1938.

It is our impression that these subjects fall into three general but closely related groups.

Group I. Steps contemplated by the Brazilian Government to alleviate the existing exchange position. Specific action which this Government could take to assist the Brazilian Government in clearing up the existing arrears.

Group II. Steps contemplated by the Brazilian Government to establish a Central Bank; an estimate of the amount of reserves in gold, foreign exchange or the equivalent which the Central Bank would require, either in the form of Central Bank reserves or a stabilization fund. Methods by which the Brazilian Government plans to create and maintain these reserves. Specific action which this Government might take to help create immediate reserves or to assist in the gradual achievement of the desired objectives, including methods providing for continuing cooperation between the two treasuries.

Group III. The long range development program of the Brazilian Government. Estimate of amounts of foreign materials which will be required to carry out this program. Estimate of the effect on the Brazilian balance of payments position. Proposed methods of financing purchases of foreign materials. It is understood that the contemplated methods are those which would have the smallest immediate impact on the external position of the milreis. Specific action which this Government might take to facilitate the development of this program.

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In order for this Government to have a complete understanding of these problems, the balance of payments position for 1939 and ensuing years should be thoroughly discussed as well as the anticipated effects of the proposed measures on future years.

This Government understands that in order to carry out the various aspects of a comprehensive program, large amounts of money will have to be contributed locally. For example, a long-range development program will doubtless require large expenditures for local materials and labor. It would be desirable to have information as to the methods proposed by the Brazilian Government to finance both the external and internal portions of the program because of their joint effect on the budgetary and governmental indebtedness position of the Brazilian Government.



*Brazilian matters*

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January 13, 1959.

Dear Sumner:

Confirming our telephone conversation,  
I am enclosing a copy of the message which we  
suggest sending to our Embassy at Rio de Janeiro.

Yours sincerely,

(Signed) Wayne G. Taylor

The Honorable

Sumner Welles,

Under Secretary of State.

encl

"This Government believes that Minister Aranha should be prepared to discuss in detail all aspects of the subjects included in the communication which Minister Souza Costa sent to Secretary Hergenthan on December 2, 1938.

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-2-

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Pages 89-91 placed in  
Book 160, pages 66A-C  
Loan Agreement between Universal Trading  
Corporation and Export-Import Bank - 1/14/3

## DEPARTMENT OF STATE

FOR THE PRESS

JANUARY 14, 1939  
No. 16

CONFIDENTIAL RELEASE FOR PUBLICATION IN THE MORN-  
ING NEWSPAPERS OF SUNDAY, JANUARY 15,  
1939. NOT TO BE PREVIOUSLY PUBLISHED,  
QUOTED FROM OR USED IN ANY WAY.

## DEPARTMENT OF STATE

FOR THE PRESS

JANUARY 14, 1939  
No. 16

The President has invited the Minister for Foreign Affairs of the Republic of Brazil to visit Washington early in February as the guest of the United States Government in order that various questions of common interest to the two Governments may be discussed.

The following is the text of a telegram addressed by the President to the President of Brazil on January 9:

THE WHITE HOUSE  
WASHINGTON

January 9, 1939

His Excellency  
Getulio Vargas  
President of the United States of Brazil,  
Rio de Janeiro, Brazil.

There have arisen during recent months various questions of great importance in which our two Governments are equally interested. It would be particularly gratifying if these matters could be discussed in direct conversations between high officials of our respective Governments in that frank and friendly manner and in that spirit of mutual helpfulness which fortunately are traditional in the relations between Brazil and the United States. For this purpose I am extending through Your Excellency an invitation to your distinguished Minister for Foreign Affairs, Dr. Oswaldo Aranha, to visit Washington as the guest of this Government. If it is agreeable to Your Excellency and convenient for him, I would suggest that the visit take place as soon as possible after the first of February. I hope very much that it may be possible for your Minister to accept this invitation and to visit Washington where he gained so many friends during his service as your Ambassador to this capital, and where it would give me and the members of my Government the greatest pleasure to welcome him.

Please accept the assurances of my highest consideration, together with the expression of my warm personal regard.

FRANKLIN D. ROOSEVELT

The President received on January 13 the following telegram from President Vargas informing the President that the Brazilian Minister for Foreign Affairs was pleased to accept the invitation of the Government of the United States:



-2-

Rio de Janeiro,  
January 13, 1939.

His Excellency  
Mr. Franklin Roosevelt,  
President of the Republic of the  
United States of America,  
Washington, D.C.

I derived great pleasure from Your Excellency's telegram from the 9th instant. As Your Excellency rightly recalls, cooperation of their Governments in the solution of continental and international problems is a pleasing tradition in the life of our nations. No less valuable and deserving of welcome will be our decision, in this era of confusion, animated by the same spirit of cooperation, to seek the adjustment of any problems, even internal ones, which may aid directly or indirectly in the reaffirmation of this friendship and of the interdependence of the interests of our nations. This will also be true in this new meeting which Your Excellency proposes between the Minister of Foreign Relations, Mr. Oswaldo Aranha, and some members of your Government. My Government thanks you for the kind wording of the invitation and Minister Aranha will take much pleasure in visiting Washington early in February. I suggest, merely as a practical measure for the study of the problems in question, that the Embassy of the United States of America at Rio de Janeiro furnish me as soon as possible with an outline of them, so as to enable me to consult my assistants and instruct the Minister of Foreign Relations in such a way as to meet Your Excellency's wishes. It was particularly pleasing to me to hear from Your Excellency such flattering references to the mission which Mr. Aranha performed there as my Ambassador. I present to Your Excellency the assurances of my high consideration and beg you to believe in my sentiments of appreciation and cordial esteem.

GETULIO VARGAS.

January 17, 1936

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My dear Jesse:

For your information, I am inclosing herewith a copy of the message which the State Department, at our request, sent to Brazil in connection with the approaching visit of Minister Aranha.

Sincerely,

Hon. Jesse Jones,  
Chairman, Reconstruction Finance Corp.,  
1825 H Street,  
Washington, D. C.

January 17, 1953

96

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Chairman, Reconstruction Finance Corp.,  
1625 H Street,  
Washington, D. C.



January 17, 1938

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It is our impression that these subjects fall into three general but closely related groups.

Group I. Steps contemplated by the Brazilian Government to alleviate the existing exchange position. Specific action which this Government could take to assist the Brazilian Government in clearing up the existing arrears.

Group II. Steps contemplated by the Brazilian Government to establish a Central Bank; an estimate of the amount of reserves in gold, foreign exchange or the equivalent which the Central Bank would require, either in the form of Central Bank reserves or a stabilization fund. Methods by which the Brazilian Government plans to create and maintain these reserves. Specific action which this Government might take to help create immediate reserves or to assist in the gradual achievement of the desired objectives, including methods providing for continuing cooperation between the two treasuries.

Group III. The long range development program of the Brazilian Government. Estimate of amounts of foreign materials which will be required to carry out this program. Estimate of the effect on the Brazilian balance of payments position. Proposed methods of financing purchases of foreign materials. It is understood that the contemplated methods are those which

would have the smallest immediate impact on the external position of the milreis. Specific action which this Government might take to facilitate the development of this program.

In order for this Government to have a complete understanding of these problems, the balance of payments position for 1939 and ensuing years should be thoroughly discussed as well as the anticipated effects of the proposed measures on future years.

This Government understands that in order to carry out the various aspects of a comprehensive program, large amounts of money will have to be contributed locally. For example, a long-range development program will doubtless require large expenditures for local materials and labor. It would be desirable to have information as to the methods proposed by the Brazilian Government to finance both the external and internal portions of the program because of their joint effect on the budgetary and governmental indebtedness position of the Brazilian Government.



January 17, 1939

My dear Mr. Pierson:

For your information, I am inclosing herewith a copy of the message which the State Department sent, at our request, to Brazil in connection with the approaching visit of Minister Aranha.

Sincerely,

Hon. Warren Lee Pierson,  
President, Export-Import Bank,  
910 17th Street,  
Washington, D. C.

January 17, 1939

My dear Mr. Pierson:

For your information, I am inclosing herewith a copy of the message which the State Department sent, at our request, to Brazil in connection with the approaching visit of Minister Aranha.

Sincerely,

Hon. Warren Lee Pierson,  
President, Export-Import Bank,  
910 17th Street,  
Washington, D. C.

January 17, 1900

My dear Mr. Pierson:

For your information, I am inclosing herewith a copy of the message which the State Department sent, at our request, to Buncell in connection with the approaching visit of Minister Asaba.

Sincerely,

Hon. Warren Lee Pierson,  
President, Export-Import Bank,  
910 17th Street,  
Washington, D. C.



January 18, 1939.  
5:13 p.m.

103

HMJr: Hello.

Operator: Dr. Feis. Go ahead.

HMJr: Hello.

Herbert  
Feis: Hello, Henry.

HMJr: How's the South American expert?

F: Still among the survivors.

HMJr: Amongst the -- I see.

F: What?

HMJr: Were you spied on?

F: I can't -- was I spied on?

HMJr: Yes.

F: Yes, but not by the people of the -- that were written about in the press.

HMJr: I see. You had little special spies all your own.

F: Oh, I was one of the favorite subjects of observation.

HMJr: I see. You called today.

F: I did. Look, first, about those two documents in which you were interested. Has Archie reported to you?

HMJr: Yes.

F: Now I have gotten shold of the one copy that exists in the department of the memo of our talk with Mallet.

HMJr: Yes.

F: Do you --

HMJr: I can have a copy of it? Was it that confidential?

F: Wait -- wait just a minute. I'll have a look at it myself.

HMJr: You don't have to read it now. I want --

F: Stanley Hornbeck appears to have done it. Ah --

HMJr: I think it would be safe to give it to the Secretary of the Treasury.

F: I'll get over to you what -- what I have here.

HMJr: Right.

F: This is the only thing which I could find. There was -- you know all the substance.

HMJr: Yes, but I -- having read the whole cable, it's so important I wanted something on it to --

F: All right.

HMJr: Close it out.

F: All right. I just -- now on the Brazil thing, you've gotten that copy.

HMJr: I've got that.

F: Right. Now, on the whole Aranha negotiation -- ah -- unfortunately for myself, I think I'll have to take on, at least temporarily, the job of coordination as between, at any rate, ourselves and T.A., and Import-Export Bank. I think sometime if you can find time to talk with me about it, it might too be useful --

HMJr: Well --

F: So that not to cross wires and the rest.

HMJr: Well, I had \_\_\_\_\_ in here yesterday, and I gave him a copy of what we propose to take up, and sent one to Jesse Jones, strictly confidential, in order to keep them posted. Hello?

F: Yeah?

HMJr: And he asked me what the Treasury wanted to do, see? So if you wanted to take on the Treasury also, and between the State Department and the Treasury, why it would be most agreeable to me.

F: Indeed I don't. What I want to do is to --

HMJr: Well, I expect --

F: Before Aranha arrives --

HMJr: When Aranha comes over here and I see him, I'm -- I'm going to ask the State Department to have somebody here.

F: All right. That's -- that I'd like.

HMJr: See?

F: But before he comes --

HMJr: Oh, we've got to sitdown, that's all.

F: We better get this thing pretty completely worked out.

HMJr: Absolutely.

F: And that's what I wanted to suggest to you when you get time.

HMJr: Yes.

F: Now in addition to that, there are various other matters that I think you would be interested to talk about again when you get time.

HMJr: I'm going to be here this weekend. I'll give you a ring.

F: All right. Will you?

HMJr: Thank you.

F: Good bye.

HMJr: Good bye.

F: Good bye.



MEMORANDUM

January 29, 1939.

TO: ~~Mr. Taylor~~  
~~Mr. White~~  
1 Mr. Lochhead *AL*

FROM: Mr. Gaston

The Secretary requests that each one of you read these Rio cables and be prepared to discuss them with him as soon as possible after Mr. Taylor's return.

A large, stylized handwritten signature, possibly initials, in dark ink.

COPY FOR SECRETARY

Taylor  
re: White  
Lockheed  
Talk to [unclear]

CA

Gray

RIO DE JANEIRO

Dated January 24, 1939

Rec'd 6 p.m.

Secretary of State

Washington

28, January 24, 5 p.m.

Department's 20, January 20, 7 p.m.

(A) Official figures: \$6,000,000. In addition estimated \$4,500,000 for unsold stocks of United States origin. Also \$2,500,000 which is an estimate of needs in excess of daily quotas over and above limits established by the bank and which companies operating on the basis of daily quotas allege represents a legitimate claim. Total \$13,000,000. (The estimate given above for needs in excess of daily quotas would undoubtedly be contested by the Bank of Brazil which would claim that this amount has already been absorbed in past remittances by the companies involved.)

(B) The Director of Exchange is unable to answer the Department's question. He points out that the amount of outstanding contracts which have been issued and which have not yet matured varies from day to day in accordance with maturities and new contracts issued.

I venture to point out that the amount of the outstanding contracts appears to be relatively unimportant as

regards



CA

--2--28 from Rio..

regards the discussions with Aranha. If an agreement is arrived at resulting in the supply of adequate exchange for future imports, I am convinced that American exporters will not push for immediate payment of the outstanding contracts. These contracts are being liquidated promptly on maturity by the Bank of Brazil and the Embassy has no reason to fear that this practice will be discontinued.

(C) Although no official division along commodity lines is available, following is an unofficial estimate of the position of the American oil companies: (one) arrears of exchange for oil of United States origin for which no contracts have been issued; exclusive of stocks \$735,000 (two) arrears on stocks of United States origin \$3,000,000 (three) arrears on oil imported by American companies from countries other than the United States; exclusive of stocks \$990,000 (four) arrears on stocks imported by American companies from countries other than the United States \$2,400,000 this figure is in addition to the \$4,500,000 for unsold stocks given in (a).

Estimate of amount of earnings of American corporations in Brazil which might be transferred to the United States if exchange could be secured \$10,000,000.

Complete exchange report embracing all the points covered in this telegram and expanding thereon will be sent to the Department by air mail leaving here January 28th.

HPM NPL

SCOTTEN

COPY FOR SECRETARY

PARAPHRASE OF TELEGRAM RECEIVED

109

FROM: American Embassy, Rio de Janeiro

DATE: January 24, 1 p.m., 1939

NO.: 27

STRICTLY CONFIDENTIAL

Department's 21 of January 21, 1 p.m.

The following information has been given the Embassy by the Director of Exchange of the Bank of Brazil in strict confidence with the understanding that the source should not be divulged:

(a) No important changes in the Brazilian exchange control are in contemplation;

(b) The income from the present 3 percent tax is included in the income from taxes on exchange operations;

(c) I am informed by the Director of Exchange that it is unnecessary to increase the existing taxes on exchange operations in order to reach the 250,000 conto yearly figure which the five-year plan specifies. The Director states that the six percent tax on remittances other than import bills, the existing three percent tax on imports bills, and the present profit on exchange operations are sufficient for this purpose;

(d) The exchange tax proceeds will be wholly in milreis;

(e) In accordance with the needs of the Government,

the



the proceeds of this tax may be spent partially in Brazil or partially abroad;

(f) National Treasury obligations will be issued wholly in Brazil, and it is not (repeat not) contemplated to use them as payment for debts, such as the funding of overdue exchange debts, outside of Brazil.

Being unaware that the Embassy was given the above information by the Bank of Brazil, Aranha, who claims authorship of the five-year plan, appeared very reluctant to disclose any information regarding it and stated that the Government, to avoid speculation in Brazil, desires to keep this matter strictly confidential for the time being. Aranha added that no decision has been arrived at in connection with points a, b and c of the Department's telegram under reference and that until he discusses all aspects of this matter in Washington, no decision will be taken.

Aranha's remarks with respect to d and f accord with the statements of the Director of Exchange.

He explained regarding e that although over one-half of the proceeds of the new taxes of all kinds are allocated to the Ministry of Finance for 1939, the proceeds will in fact be devoted largely to the payment of contracts  
for

-3-

for armaments, and that in order to conceal the nature of these expenditures the allocation of the credit was made to the Ministry of Finance.

He added that Brazil will export annually six tons of gold which is the present production, in accordance with this plan. The Government, however, has taken steps to increase its gold production and is very confident that it can augment it to at least nine tons by making available <sup>to miners</sup> equipment to improve the efficiency of placer mining.

It is the definite intention of the Government, Aranha added, to maintain a balanced ordinary budget during the life of the five-year plan. He explained that, in view of the fact that experience has shown that the Brazilian national revenue increases from ten to twelve percent normally each year, the burden on the nation of the plan will not be as heavy as the figures appear to indicate.

The promulgation of this plan is in line with the statement made on November 10 last by President Vargas. It has a political significance of course. The accusation most frequently made against President Vargas by his detractors has been that he is an inferior administrator. It would appear that this plan has been conceived in order to dispel this accusation. The publication of the plan at this time, although it has been under study for several months,

-4-

months, was undoubtedly timed so as to coincide with the departure yesterday of the Minister of Finance to confer at Montevideo with the Ministers of Finance of Argentina, Uruguay and Paraguay, as well as the approaching departure of Aranha for Washington.

DEPT. OF STATE

EA:DJW



COPY FOR SECRETARY

REB

TELEGRAM SENT

GRAY

January 21, 1939.

1 p. m.

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

21

Your 20.

Please secure all possible additional information from Brazilian Government on the following points:

(a) In connection with this new law or otherwise, is the Brazilian Government contemplating any important change in its exchange control arrangements. (b) Does the income from taxes on exchange operations include income from the present 3 percent tax. (c) Has decision been reached as to the form of the taxes to be created on exchange operation. (d) Is it possible to know whether the proceeds of such exchange tax will be wholly in milreis or partly or wholly in foreign currencies. (e) Is it contemplated that the proceeds of the tax are to be spent wholly in Brazil or partly for purchases or remittances abroad. In this connection, Department observes that over half of the proceeds of the new taxes of all

kinds

REB

2-#21, To Rio, Jan.21,lp.m.

kinds are allocated to the Ministry of Finance. (f) As regards the credit operations mentioned to take the form of the issue of national Treasury obligations, is it contemplated to issue these in Brazil or outside of Brazil or possibly to use them as payment for debts outside of Brazil, such as a possible new arrangement for funding overdue exchange debts.

The Department would also appreciate receiving your comment concerning the situation created by Brazil's action, its timing, et cetera.

HULL  
(HF)

EA:HF:LWW RA



**COPY FOR SECRETARY**

PARAPHRASE OF TELEGRAM SENT

115

TO: American Embassy, Rio de Janeiro

DATE: January 30, 1939, 7 p.m., 1939

NO.: 30

With regard to the details of exchange payments due American exporters, what information can the Embassy secure? Will it be possible for the Embassy to procure from the Brazilian authorities material on the following:

(a) Amount of delayed exchange due American exporters for which contracts have not been issued;

(b) Amount of contracts outstanding which have been issued but which have not matured yet, subdivided into such time periods as may be significant and feasible;

(c) Division of the above along commodity lines. If no more information is available, is it possible to tell how much of the preceding totals are due to oil companies?

As the Department is trying to formulate immediately the basis of prospective discussions with the Brazilian Foreign Minister, it is urgently in need of all available information on these points.

Would it also be possible for the Embassy to furnish an estimate as to the amount of earnings of American corporations in Brazil which might be transferred to this country if exchange could be secured?

EA:DJW

JR

GRAY

Rio de Janeiro

Dated January 25, 1939

Rec'd 12:41 p.m.

Secretary of State,  
Washington.

30, January 25, 1 p.m.

The Bank of Brazil has published the following announcement this morning:

"An accord having been reached between the Brazilian and the German Governments for the prorogation of the modus vivendi with Germany, it is resolved by the Minister of Finance that the fiscalization department of the Bank of Brazil, from this date on, will be permitted to register new sales of any Brazilian products to Germany, in accordance with the regulations in force, until further notice".

The Foreign Office explains that the so-called accord is purely a verbal understanding to extend the 1936 agreement and is similar to several other extensions of the compensation arrangement by verbal understanding since its technical expiration in June 1937. I will, however, query Aranha personally regarding this as soon as possible and report to the Department.

Please inform Department of Commerce of first paragraph of this telegram.

WMC:RR

SCOTTEN



REB

GRAY

Rio de Janeiro

Dated January 30, 1939

Rec'd 3:40 p. m.

Secretary of State,  
Washington.

41, January 30, 3 p. m.

My 30, January 25, 1 p. m.

Aranha informed me prior to his departure yesterday that the announcement of the Bank of Brazil was the result of an exchange of notes between the Foreign Office and the German Embassy here. The notes, which Aranha gave me in confidence, confirm a verbal understanding for the extension for an indefinite period of the 1936 compensation arrangement. The only change in this arrangement is an increase of ten thousand tons in the quota of cotton to be exported to Germany, allegedly to take care of the needs of the territories recently incorporated into Germany.

The note from the Foreign Office reserves a monopoly of exchange transactions for the Bank of Brazil and maintains the present prohibition against compensation mark transactions by the local German banks.

Copies

REB

2-#41, From Rio, Jan.30,3p.m.

Copies and translations of the notes go forward by  
air mail tomorrow.

SCOTTEN

PEG

RECEIVED  
JAN 31 1951  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro  
DATE: January 31, 7 p.m., 1939  
NO 28

You are requested to send by airmail immediately Brazilian import trade data for as many months as possible of 1938, by chief supplying nations, for leading non-trade agreement items (a) where German competition is most severe and (b) important in United States exports.

HULL  
(HF)

COPY:DJW



## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro  
DATE: January 31, 6 p.m., 1939  
NO.: 27

The Department is studying among other matters, preparatory to Aranha's arrival, the position of American enterprises in Brazil concerning the possibility of remitting dividends and interest. Can enterprises of German and other nationalities at present make such remittances, under compensation accords? Can you advise the Department?

HULL

(HF)

COPY:DJW

JR

GRAY

Rio de Janeiro

Dated February 1, 1939

Rec'd 10:30 a.m.

Secretary of State,  
Washington.

43, February 1, noon.

Department's 28, January 31, 7 p.m.

Every effort will be made to send the data requested as soon as possible. However this will require considerable research in the statistical office which as the Department is aware is far from efficiently organized and possibly one week will be required to complete the report. If the Department prefers the data can of course be sent by telegram.

SCOTTEN

HTM:DDM

RECEIVED

RECEIVED

RECEIVED

JR

GRAY

Rio de Janeiro

Dated February 1, 1939

Rec'd 12:15 p.m.

Secretary of State,  
Washington.

45, February 1, 2 p.m.

Department's 27, January 31, 6 p.m.

No (repeat no) remittances abroad for interest or dividends have been permitted to any country since latter part of 1937. There is no provision in compensation arrangement with Germany covering **this point** and the Director of Exchange informs me the Bank of Brazil has on several occasions categorically refused the request of the Reichsbank to permit this class of remittances.

SCOTTEN

DDM:HTM

5-11-39



20  
1000  
EA 123  
only copy

February 1, 1939.

BASIS OF DISCUSSION WITH  
MINISTER ARANHA

The prospective field for discussion with Aranha, the Brazilian Minister of Foreign Affairs, virtually covers the whole of the economic and political relations between the United States and Brazil. If the discussions are successful, this Government may undertake to do various things; in return the Brazilian Government would give certain undertakings and follow certain agreed-on courses of action.

The following is an attempt to summarize this field of action and agreement. It is intended to be a plan in which each item is but part of a whole scheme intended to serve Brazilian development and prosperity and to improve the basis of Brazilian-American economic and financial relationships. Within this scheme each part of the program must be considered in relation to the other parts.

Part I

Many considerations join to justify willingness on our part to extend financial and economic assistance to the Brazilian Government. On the basis of preliminary correspondence, Aranha undoubtedly expects to be able

to

- 2 -

to secure proffers of assistance.

This assistance might take any one or all of the following forms:

(1) Technical cooperation for the creation of a central bank in Brazil and the loan of funds to Brazil for the augmentation of the reserves of this bank. Such a loan might include the provision of gold and, in part, might be kept within the United States. Operations of the bank would have to be directed in such a way that the reserve could reasonably serve its normal function of meeting temporary external difficulties without being placed in danger of being rapidly dissipated in payment of excess imports by Brazil.

Whether in addition there might be created a Stabilization Fund is a matter to which perhaps the Treasury will want to give consideration.

(2) A long term loan to be used for productive purposes within Brazil - such purposes to be generally agreed upon in advance. This loan would presumably be accompanied by an arrangement providing that the part of it used to finance imports would be spent in the United States.

Some such loan transaction might be within the power of the Export-Import Bank. However, there are

reasons

- 3 -

reasons for preferring to handle it on the basis of congressional authorization.

(X) As part of a plan for clearing up present delays in the provision of exchange for exports from the United States, and for preventing the recurrence of such frozen exchange indebtedness, the Export-Import Bank might to a limited extent participate in a plan devised for this purpose. Two previous "un-freezing" arrangements have been ineffective. It is believed that the Brazilian Government itself should find the means for paying off a part of these exchange arrears, and that if the rest is converted into an obligation, this obligation should run for as short a term as is feasible. No attempt has been made to decide exactly how far the Bank should go in participation, but prevailing opinion is that if it discounts the paper issued by the Brazilian Government for this purpose, it should be with recourse against the American exporter.

#### Part II

The conditions under which these loans might be made and the agreements and arrangements with which it would be advisable to accompany them.

If these actions are to serve their purposes of contributing towards the economic development and stability

ity



- 4 -

ity in Brazil and the improvement of relations between Brazil and the United States, the Brazilian Government should at the same time deal with various outstanding difficulties and put into force policies that will prevent their recurrence, and enable this financial assistance to produce the results desired.

The main steps of this character which the Brazilian Government might be asked to consider outside of any agreements having to do directly with the creation of a central bank are:

(1) Elaboration of the necessary agreements on the basis of which the central bank and public works loans might be made.

(2) Development and fulfillment of the plan for resumption of service of the present Brazilian defaulted debts. This scheme would of necessity provide only very modest payments, at any rate in the immediate future, and also perhaps permit Brazil to reacquire part of this debt at prices prevailing after loan service was resumed.

(3) Understanding as regards the possibility of American enterprises in Brazil remitting some earnings as interest or dividends.

(4)

- 5 -

(4) Understanding in regard to the position of American enterprise in Brazil.

(5) Agreement upon and enforcement of arrangements and policies which would

(a) Include necessary measures to deal with the present overdue exchange indebtedness.

(b) Administration of policies to prevent the creation in the future of similar exchange arrears.

(c) Arrangements to assure prompt provision of dollar exchange for future American exports.

(d) Arrangements that would safeguard the competitive position of American trade in the Brazilian market, particularly in respect to the competition of trade carried out on the basis of compensation of payments agreements.

This set of problems has attended Brazilian-American commercial relations steadily during the past few years. It is to be hoped that when and as Brazilian external economic affairs can be put on a more stable and assured basis, they will just disappear. But in the meantime, it is deemed important to have arrangements adequately dealing with them, and proposals that seem to meet

diverse

- 6 -

diverse difficulties and requirements not too unsatisfactorily are set forth in the following Part III.

### Part III

Elements of possible program to deal with existing difficulties in the exchange and trade field.

These difficulties have figures largely in our previous discussions with both Aranha and Souza-Costa and have been the subject of a vast amount of subsequent discussion. A great variety of suggestions has been put forward. No attempt will be made in this memorandum to examine all the alternative programs that might be put before the Brazilian Government for consideration as an adequate way of dealing with the situation. The committee has rather, on the basis of its discussion, tried to formulate that program which seemed to it the most promising and satisfactory preliminary basis of discussion with the Brazilian Government (bearing in mind that the program (a) must be reasonably effective, (b) acceptable to the Brazilian authorities, (c) not in conflict with our general commercial policy, (d) not giving ground for other countries, especially Germany, to claim that they are being unfairly pressed as part of

of



- 7 -

of a financial deal between ourselves and Brazil).

The essentials of the suggested basis of discussion are as follows:

(a) That the present trade agreement between Brazil and the United States be retained in force.

Reiteration of the Brazilian policy to so safeguard its trade arrangements with other countries as not to impair the natural and anticipated advantages of the Brazilian-American trade agreement.

(b) That the Brazilian Government give a clear reiteration of the pledge contained in the exchange of notes accompanying the Brazilian-American trade agreement to the effect that it would make dollar exchange immediately available for the payment of exports from the United States (this might be supplemented and made more significant by a further statement that the Bank of Brazil would undertake to keep in the United States at all times a fund for the provision of the necessary dollar exchange).

(c) That Brazil will undertake as long as its products are sold in the United States for free exchange, not to make any of the free exchange available for the payment of goods from countries which do not permit the acquisition of free exchange in payment for Brazilian products.

(d)

- 2 -

(d) That the Brazilian Government should work out a plan for dealing with the present overdue exchange arrears, providing cash for some refunding of the rest on as favorable terms as possible to the creditors.

(e) That in order to prevent the recurrence of this situation, the Brazilian Government have effective arrangements whereby the total exchange liabilities occurring will not be in excess of the exchange available. Of the alternative means of achieving that end it is suggested that the Brazilian Government might well consider the inauguration of a policy whereby it enforced flexibly differential buying and selling rates of exchange. Under such a scheme the size of the differential could be varied according to the necessity of discouraging imports at any given time. Besides the quality of flexibility this arrangement would have the merits of not involving automatically any discrimination as between Brazil's sources of supply and of further making exchange available to the Brazilian Government at a favorable rate.

If such a policy were effected, the Brazilian Government should promise that exchange would be provided for exports from the United States on a most-favored-nation basis (that the spread between the buying and selling rates applicable to American commerce should

not

- 9 -

not be greater than that applicable to the commerce of any other country, including the commerce conducted under compensation arrangements).

This still would leave it possible for Brazil to establish a scheme of cross-rates applying to the trade with Germany and other compensation countries that would leave American trade at its present disadvantage or increase that disadvantage - if the Brazilian Government so chose. In that respect, we should be dependent upon the general pledge mentioned in (a) above - to effect which Brazil might have to continue to limit the quantity of its exports for blocked currencies.

(f) It would be agreed that there should be a periodic joint audit (possibly carried out on the basis of cooperation between the two central banks) of the exchange position of Brazil for the purposes of studying the effects of these arrangements and guaranteeing their satisfactory operation.

#### Part IV

As stated above, it is to be hoped that internal and external economic conditions in Brazil will so develop that the Brazilian Government will not need to exercise the



- 10 -

the methods of control which are the subject of the preceding section. To contribute to that outcome - and in logical connection with any plan of public works financing - attention should be given to the long-run study of economic development in Brazil.

This might well, as a first step, justify the creation of a joint committee to study the question of the means of promoting the production and sale of complementary products, such as rubber, cocoa, manganese. It is believed that there is much to be hoped for in this field.

#### Part V

It is suggested that an additional possible field of arrangement that could be worked on at the same time as the preceding is the matter of the acquisition by the United States from Brazil of certain commodities on our strategic raw materials list. These would be delivered to the American Government for storage purposes. The provision of such materials might well be used to pay off in part the loans to be made.

EA:HF:LWW

RE BRAZILIAN NEGOTIATIONS

February 3, 1939.  
12:10 p.m.Present: Mr. White  
Mrs Klotz

H.M.Jr: Harry, give me your recommendations.

White: There is nobody who is over-all; there are some men in different phases.

There is a young man whom Viner had recommended and who has written a book on Uruguay, written reviews on Latin American books, seems to be quite able. He's rather young, and is on the faculty of the University of Louisville. Been at Harvard. One of his chief merits of distinction is that he refused a Ph.D. from Harvard. He's well-to-do and eccentric and seems like an able chap ....

H.M.Jr: where's he from?

White: ... who would form part of a group. I doubt very much ....

H.M.Jr: What's his name?

White: Hansen - Simon G. Hansen.

Then there is Fetter, who wrote on Chile. He's not familiar with Brazil very much, except incidentally, and a little on Latin America. He too is rather young.

Then there is a Professor Lowry, who spent five years in Brazil until recently. He's a sociologist who would be good on certain aspects, but would certainly not be competent on many other aspects, but would be valuable again as one of several, not by himself.

Then there is a Professor James who is well known for his - as a geographer of Brazil. He knows the ....

H.M.Jr: You're not giving me what I want.

-2-

- White: There simply isn't anybody. One or two others I can mention. Young, who is supposed to be a good monetary man, but who Viner says is very stodgy; sound, but very definitely stodgy; rather dull, not at all brilliant.
- M. N. Knight, economic historian, very able, but whose recent familiarity with Latin America - it's not recent, it dates back. Outside of that ....
- H.M.Jr: What I was thinking of - I've had an evening with Feis, and this thing - the only two things I get: a question of organizing a central bank, a question of exchange control, and so forth and so on. Now, the two people that come to my mind that could be the most helpful are (1) Walter Stewart and (2) Professor Williams of Harvard.
- White: Williams was there about five years ago.
- H.M.Jr: Williams and Walter Stewart.
- White: Walter Stewart - I don't know anything either way.
- H.M.Jr: If we're going to organize a Central Bank of Brazil, I don't suppose anybody is a better technician than Walter Stewart on central banks. Is there?
- White: I didn't know his capacity in that field.
- H.M.Jr: You know, he was economic adviser of the Bank of England .....
- White: Yes, but it was a long time ago. Central banks have moved.
- H.M.Jr: All right, think about it over the week-end.
- White: I want you to do much more than that. If that's all there is to be done, we're not going to get anywhere at all. Suppose you do establish a central bank there.
- But you have to depend on a group.
- H.M.Jr: I thought you'd have somebody as good as this Social Security suggestion.



-3-

White: No, there isn't anybody; there isn't anybody in the field.

H.M.Jr: We'll just have to wait until we hear. As a matter of fact, the way it is now it looks as though the State Department wants to run the whole thing.

White: The way it looks now, it looks like it's going to be a flat tire, better keep out from under it.

H.M.Jr: I thought Herbert Feis would go through the ceiling when I said, "The foreign thing has got to be decided - it's got to be decided whether this Bondholders' Committee is going to run this thing or not."

White: The way it's headed now, it's going to break down. Nothing very substantial is going to emerge. The odds are very much against it.

H.M.Jr: Then you'll have to do some thinking, see?

White: Yes.

H.M.Jr: In the meantime ....

White: Much more.

H.M.Jr: ... I'm losing interest. I'm much more interested in the domestic situation.

White: And don't forget, we've got a couple of good men around the shop.

H.M.Jr: Well, you think about it.

White: O.K.

H.M.Jr: You know, they're coming over Tuesday afternoon with a plan; we'll see what they've got.

Last night I saw A. A. Berle. He said, "Getting ready for Guatemala?"

I said, "Why Guatemala?"

He said, "That's where the Secretaries of the Treasuries are going to meet."

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I said, "I promised myself the first person that asked me that question would have to represent me. You're elected."

Dwight spoke up: "Oh, that's fine. The Minister of Guatemala gave me the loveliest native costumes."

Klotz: Who said that?

H.M.Jr: Mrs. Berle.

I said, "If you think I'm going to let them get me out in the middle of the Atlantic Ocean and have somebody pull the plug on me, you're mistaken."

He said, "I'm tremendously interested."

I said, "What do you think the Treasury could do in Guatemala?"

White: He's not a bad chap for it.

H.M.Jr: Oh, he's crazy about it. And his wife has got a costume, so they're all set.

Klotz: His wife is going with him?

H.M.Jr: I suppose so. Why?

Klotz: Be good for him.

White: Will you want to take up anything about Brazil before then?

H.M.Jr: Not before Monday.

White: Or would you prefer after Tuesday?

H.M.Jr: I doubt if I'll - we'll see.

White: Whenever you're ready.

H.M.Jr: Are you ready?

White: We have a good deal of material.

H.M.Jr: Be ready around Monday?

White: Be readier.

H.M.Jr: Readier.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

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DATE February 6, 1939

TO Mr. Taylor  
FROM Mr. White

Subject: Comments on the Proposals Contained in the State Department Memorandum on Brazilian Negotiations

1. The Central Bank

Technical assistance in formulating and organizing the central bank may best take the form, in our opinion, of discussions and comments on drafts of proposals which are prepared and submitted by the Brazilian authorities. The Brazilian Government had some drafts before it for consideration and will probably have one to present for our examination.

We suggest that the Federal Reserve Board and the Federal Reserve Bank of New York cooperate with the Treasury and State Departments in presenting this Government's views on technical matters with regard to the central bank.

2. Legislative Authority for Extensions of Credit

The authorization of the Export-Import Bank expires on June 30, 1939. The extension of the authorization will come before Congress soon. Authority for granting these loans may be obtained from Congress through the extension of the authorization of the Export-Import Bank; the legislation might include a statement of intention to make types of loans envisaged in the Brazilian discussions, but the statement to be in the most general terms. The Export-Import Bank would then have full authority to extend all types of assistance to the Brazilian Government (as well as to other governments) including loans for monetary purposes, as well as long-term loans for industrial purposes, without restriction as to terms and conditions.

It is probably desirable to have Congress make clear either through specific legislation or discussion on the floor that it is intended by Congress that the Bank shall have the authority to make the types of loans envisaged in the Brazilian discussion. Notwithstanding the broad powers contained in the Bank's charter, the discussion accompanying the second renewal of the powers of the Export-Import Bank gave no clear indication that the types and magnitude of loans contemplated included all the kinds of financial assistance that will probably be seriously discussed in the negotiations. Moreover, the increased power over the



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affairs of the borrowing country that would inevitably accrue to the lending agency as a consequence of the negotiations and consummation of the type and magnitude of loans envisaged in the Latin American program makes desirable careful consideration by Congress as to the specific agency or agencies which would best serve the interests of both lending and borrowing countries.

3. Loans to the Proposed Central Bank for Purposes of Augmenting the Monetary Reserves

(a) We suggest the advisability of exploring in the discussion provisions for increasing the amount of silver (as well as gold) in the Brazilian monetary system. Two proposals may be suggested for consideration:

- (1) To increase the use of silver in subsidiary coins.
- (2) The United States to lend to Brazil a certain amount of silver (in terms of ounces), which might be included in the specie reserves against note issues.

(b) At the present time the Brazilian note issue has a specie reserve of only about 12 percent. Specie reserve probably needs to be greater than they otherwise would be if the central bank is to assume responsibility for note issues (and this no doubt will be one of the features of the bank). The legal maximum limit of the volume of note issues will be directly associated with the volume of reserves in the hands of the central bank. Greater confidence may accompany the monetary program if the bank starts off with a larger proportion of specie reserve than 12 percent. There is some indication which requires further investigation that the note issue is at the present time larger than is in the best interests of the Brazilian economy.

(c) A loan of foreign exchange assets to Brazil for the purpose of building up its external reserves must be accompanied with careful safeguards. It is necessary to prevent the dissipation of reserves during the period of adjustment of the Brazilian economy to the balance of payments situation which will follow renewed service on foreign obligations and the development of its armament program. These safeguards can be included in the arrangements that must be made in connection with the stabilization of the milreis.

4. Stabilization Fund

The creation of a stabilization fund has some psychological value but its operations could, in the case of Brazil, be as well carried out by the central bank.

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In view of the small amount of gold that they could acquire, and in view of the possible wide swings in Brazil's balance of payments, any stabilization fund Brazil might acquire might soon be used up. The situation would then appear worse than had no such fund been created in the first place and the needed gold taken from the usual bank holdings.

For Brazil, it is a moot point whether the degree of secrecy that a stabilization fund would provide in its exchange operations is desirable or not. In any case the small size of a stabilization fund that is possible to create now, and the uncertainty of Brazil's trade prospects would make secrecy difficult, since the fund would have to be replenished quickly should an adverse balance develop.

The creation of a stabilization fund might well await the acquisition of more metallic reserves and the development of more stable conditions with respect to her balance of payments, and experience with the new Central Bank.

5. Long-term Loans for Productive Investment in Brazil

We believe that this is the most important element in the proposed discussions with the Brazilian Government and we are inclined to anticipate that the Brazilians will also consider this feature to be the essence of the discussions. The memorandum submitted by the State Department suggests inadequate emphasis on this part of the program. We would like to suggest the following topics around which the discussion could be centered.

- (a) Plan the industrial development with the objective of increasing the sources of foreign exchange to the Brazilian Government in the future.
- (b) Discussion of rates of interest and rates of amortization of these loans which will be low enough to promote profitability of the undertakings, the repayment of the loans, the provisions for expansion of the enterprises on the basis of reinvestment of profits earned and provision of additional foreign exchange resources to the Brazilian economy.
- (c) Discussions with regard to the eventual control and ownership of these investments to insure its retention in the hands of Brazilian citizens.
- (d) Provision for technical assistance from the United States for all of the productive ventures embarked upon.



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- (e) Provisions to be made for the purchase of equipment and machinery from the United States rather than from European competitors of the United States.
- (f) Readjustment of the present armament program in the light of a program for productive investments.
- (g) Provision for a complete geological survey of Brazil to aid in the planning of productive enterprises.
- (h) The Brazilian Government possibly to undertake to cooperate with the United States in plans for control of their cotton growing industry.
- (i) The possibilities for directing industrial developments towards producing those products which Brazil now imports from non-American countries.
- (j) Possibilities for directing productive investments to those products which the United States and other American countries now import from non-American countries.

We are of the opinion that the discussion with regard to the long-term productive loans be in terms of large amounts and that the expenditures be planned over a period of five years. (Obviously amounts, conditions, etc., are to be discussed so far as the Treasury is concerned, with the clear understanding that the discussions are preliminary and tentative.)

In our view the basic solution lies in the industrial development of Brazil which will increase her export trade relative to her import trade to an extent which would solve the immediate problems and prevent their reoccurrence in the future. It is essential that Brazil decrease its dependence upon coffee and cotton as their chief source of foreign exchange. Further, the standard of living of the Brazilian people cannot, in our opinion, be raised until and unless Brazil embarks upon these productive investments. For social and political reasons we believe it important that the investments be made under the conditions which will ensure that the ownership and control of these investments remain in the hands of the Brazilian residents. This program seems to be the only practical one which can lead in the future to a full resumption of Brazil's outstanding external obligations and to an increase in our trade with Brazil.

Incidentally, we consider essential that the proceeds of these long-term loans be invested in Brazil and not diverted to liquidate present foreign exchange obligations.



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6. Assistance to Clear up Present Arrears in Granting Exchange to United States Exporters

The present dollar arrears on trade account have been estimated at a minimum of \$15 million and delayed remittances on account of interest and dividends as \$10 million. We do not have any information to indicate the arrears to other countries. It has been reported that prior to the establishment of exchange control foreign concerns operating in Brazil remitted \$60 million per year on account of earnings and interest on private investments alone. It is assumed that if arrangements are made for immediate remittances of foreign exchange to United States interests it will be necessary to make the same arrangements for all foreign interests. If so, the amounts involved may be very large and not such as can be cleared up in a short period.

It is our suggestion that the arrears on remittances of earnings and interest be preferably reinvested in Brazil, and that no provision within the next few years be made for withdrawal in foreign exchange. Methods to encourage such reinvestment should be fully explored. Reinvestment, in view of the total situation, might not be unsatisfactory to the foreign interests operating in Brazil, particularly if the long-term investment program were adopted which would raise the profitability of their investments and minimize the risk of ultimate loss.

With respect to the arrears on payments to United States exports we agree with the suggestion in the State Department memorandum that the Brazilian Government make its own efforts to clear up the existing situation. On the basis of the present foreign balance of trade and her current gold output Brazil probably has adequate resources to do this if she readjusts her present program involving imports for armament purposes. This, in our opinion, would be a favorable development. Furthermore, it is our opinion that the facilities of the Export-Import Bank should not be devoted to settlement of debts incurred by past exports.

7. Resumption of Service on External Obligations

It is our suggestion that measures be devised which will ease the burden of the resumption of the servicing of the debts upon Brazil during the next few years. An arrangement can perhaps be worked out in which the resumption for the first periods be in terms of milreis with provision for the remittance of the milreis within several years after resumption. It may be possible that Brazil would, under such arrangements, agree to what may prove to be in the end a much better settlement than would be the case were she required to make immediate payment in foreign exchange. Steps may be taken to encourage the investment by the bondholders of the milreis interest payments in Brazilian enterprises.

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8. The Proposal to Adjust the Balance of Payments by Having Variable Buying and Selling Rates for Foreign Exchange.

This proposed method of controlling foreign exchange is subject, in our opinion, to the following disadvantages:

(a) Should Brazil's balance of payments turn sharply unfavorable - as it has in the past - it may be necessary to increase the spread between the buying and selling price as much as 50 percent before enough of a change in the balance of trade and service items is engendered to sufficiently correct the situation. Such broad instability in exchange rates would be a disturbing factor to Brazilian economy of no small dimension.

(b) It amounts to a general increase in import duties which strikes at all imports proportionately and indiscriminately. It is a crude instrument because of its lack of selectivity.

(c) In so far as its effect upon Brazilian imports is concerned, it constitutes depreciation of the milreis but without the full stimulus to Brazilian exports that would result from a simple depreciation. (This assumes, of course, that the spread will be created through an increase in the selling price (of foreign exchange by the Bank of Brazil) rather than through an increase in the buying price.)

(d) It might operate in favor of those countries which now sell to Brazil on barter or compensation trade basis, since such imports might not be subject to the heightened import rate.

(e) This method of restricting imports would be a handicap to the prosecution of the industrial development program in that it would increase the cost of enterprises undertaken beyond that estimated at the inauguration of the project.

(f) While the plan would not permit discrimination among imports of various commodities or discrimination among various countries (excepting countries with whom trade is carried on under barter arrangements) this lack of power to discriminate may be a disadvantage to Brazil which is attempting to direct its economy into planned channels of development. Luxuries, for instance, would be given as favorable treatment as imports for essential purposes.

(g) It would be impossible to estimate the effect of specified percentage drop in the selling price of exchange upon the balance of payments. In the period of trial and error Brazil may



lose a considerable amount of foreign exchange and get into difficulties and in this process Brazil may lose a large part, if not all, of its reserves and be forced to utilize the undesirable devices to control balance of payments.

(h) In addition to this plan being a potential tax on imports, it is also a tax on remittances of all kinds. The effect of such a hidden tax might have undesired repercussions on the stability of Brazil's foreign exchange payments. For instance, the foreign businesses operating in Brazil may delay remittances or in anticipation of a change speed them up. This might considerably accentuate the fluctuations in Brazil's balance of payments.

Of the other possible methods for controlling international balance of payments of Brazil further study may be given to the use of the import permit system and the possibility of developing sound administration of such a system if administered by the central bank. It is also possible that the State Department's proposal of a varying buying and selling rate be combined with an import system especially during the next few years.

One advantage of the device recommended by the State Department is that it will provide added revenue to the Brazilian Government. In this connection, however, it should be pointed out that most economists who have studied the Brazilian fiscal system are agreed that Brazil has in the past relied too heavily upon customs revenue as a source of income. This proposal would amount to an increase of revenue from customs and therefore would not be a progressive step in the development of the Brazilian fiscal system.

9. Segregation of the Balance of Payments of Those Nations Granting Free Exchange to Brazil from Those Countries Which Engage in Compensation Trade.

This proposal is interesting and may be a good device for curtailing the competitive advantage which compensation trade has over trade involving free exchange. It is possible that the principle involved in this proposal be extended to all remittances between Brazil and those countries. Since present trade between Germany and Brazil consists of purchases by Germany in terms of blocked currency and purchases by Brazil in part blocked and part free exchange, this device will reduce the extent to which American exporters have competition with German products. Furthermore, restrictions on free exchange will restrict German penetration in Brazil now carried out by extension of three to six year commodity loans which anticipate compensation trade for the future years.



However, safeguards would in such case probably have to develop against the practice of purchases by Germany of Brazilian goods (either directly or through third countries) paid for with blocked exchange and sold to third countries. Unless there were some protection against that type of trade, Germany could slowly absorb a larger and larger share of Brazil's exports and provide a larger share of Brazil's imports.

Of course, it must be realized that this arrangement would be onerous to Brazil in that it limits its possibilities of exporting products which it now exports to countries utilizing compensation trade. Brazil would no doubt be willing to accept this disadvantage if the quid pro quo were adequate.

Note: This meeting began with a discussion on conferences between Treasuries and was transcribed separately because it had no bearing on the meeting as called -- for discussion of agenda for Brazilian visit.

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February 7, 1939

3 p.m.

Present:

Mr. Welles }  
Mr. Callado } State Department  
Mr. Briggs }  
Dr. Feis }

Mr. Pierson) R. F. C. (Export-Import Bank)

Mr. Taylor  
Dr. White  
Mr. Lochhead  
Mr. Edwards

Mr. Welles: As the Secretary of the Treasury seen this digest? (Basis of Discussion with Minister Aranha.)

Dr. Feis: I don't believe so.

Mr. Welles: I think the best thing to do then, unless you have some other manner of procedure, is to use this as a basis for discussion and then elaborate on each point as we come to it.

"The prospective field for discussion with Aranha, the Brazilian Minister of Foreign Affairs, virtually covers the whole of the economic and political relations between the United States and Brazil. If the discussions are successful, this Government may undertake to do various things; in return the Brazilian Government would give certain undertakings and follow certain agreed-on courses of action."

Any change since then?

HM, Jr.: Not as far as I am concerned.

Dr. Feis: No change. Taylor has made one suggestion which I will mention when we come to it.

Mr. Welles: "The following is an attempt to summarize

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this field of action and agreement. It is intended to be a plan in which each item is but part of a whole scheme intended to serve Brazilian development and prosperity and to improve the basis of Brazilian-American economic and financial relationships. Within this scheme each part of the program must be considered in relation to the other parts."

I might interject there to say that obviously what the State Department can do along certain lines will consequently have to be contingent upon what the Treasury Department feels itself able or desirous of doing. It's an interrelated whole.

"Part I. Many considerations join to justify willingness on our part to extend financial and economic assistance to the Brazilian Government. On the basis of preliminary correspondence, Aranha undoubtedly expects to be able to secure proffers of assistance.

"This assistance might take any one or all of the following forms:

"(1) Technical cooperation for the creation of a central bank in Brazil and the loan of funds to Brazil for the augmentation of the reserves of this bank. Such a loan might include the provision of gold and, in part, might be kept within the United States. Operations of the bank would have to be directed in such a way that the reserve could reasonably serve its normal function of meeting temporary external difficulties without being placed in danger of being rapidly dissipated in payment of excess imports by Brazil.

"Whether in addition there might be created a Stabilization Fund is a matter to which perhaps the Treasury will want to give consideration."

Mr. Welles: Don't you think we ought to take these up for consideration point by point?

HM Jr.: Could I ask this question. I am sorry I have to do my homework here now, but this is my first chance. Am I correct that the Brazilian Government has indicated they want our assistance to organize a Central Bank?



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Mr. Welles: They indicated that, if you remember, four years ago.

HM, Jr.: Yes. Well, if they want that, what between the Federal Reserve and people I can get in, like Professor Williams who has been down there, we will be ready to give them that assistance. But I think, I take it your attitude is going to be "we would like to help you if you tell us what you want".

Mr. Welles: Yes. On the other hand, for Aranha to arrive here with all these highly important questions still in a perfectly nebulous state without our being able to say yes or no to certain of the matters that may come up would seem to be to involve a pretty unsatisfactory prospect and would bring us back to the situation where we were four years ago.

HM, Jr.: (reading) "Technical cooperation for the creation of a central bank in Brazil and the loan of funds to Brazil for the augmentation of the reserves of this bank." Are we prepared to give that? The answer is "Yes."

Mr. Welles: But the next sentence says, "Whether in addition there might be created a Stabilization Fund is a matter to which perhaps the Treasury will want to give consideration."

HM, Jr.: That gets into the agreement that we have now, of which they have never made any use.

Mr. Welles: That was not a loan, Henry.

HM, Jr.: Against stabilizing their currency.

Mr. Welles: That was an arrangement which was simply a purchase on the installment plan by Brazil of gold from the United States.

Mr. Lochhead: It brings up the question of loaning gold and whether we have the power to do it.

Mr. Welles: I think the Treasury Department, as I understand, has been studying this during the last

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three or four days.

Mr. Taylor: I think Dr. White can indicate, on this particular point -- he has a memorandum which he has prepared and which I think if you ask him to read that it would clarify ....

HM, Jr: Let me see how we are going to do this. What I thought that out of this business, I don't -- is this all financial?

Dr. Feis: No, sir.

Mr. Welles: Some of it is financial and some is clearly Export-Import Bank and some is clearly within the province of the State Department.

HM, Jr: (I), I would say, is definitely Treasury.

Mr. Welles: Yes.

HM, Jr: And if I could have the deadline -- we haven't much time.

Mr. Welles: May I interject something right here. The President arranged -- asked me to arrange with you to see him Thursday morning to give him our clear-cut plan of what we thought should be done.

HM, Jr: I will tell you (Mr. Welles) afterwards why I am smiling.

Dr. Feis: I think if you read (1), (2) and (3) together, you may then want to consider the question of method in regard to the three of them together.

Mr. Welles: (reading) (2) A long term loan to be used for productive purposes within Brazil -- such purposes to be generally agreed upon in advance. This loan would presumably be accompanied by an arrangement providing that the part of it used to finance imports would be spent in the United States.

\*Some such loan transaction might be within the power of the Export-Import Bank. However, there are reasons for preferring to handle it on the basis of



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"congressional authorization.

"(3) As part of a plan for clearing up present delays in the provision of exchange for exports from the United States, and for preventing the recurrence of such frozen exchange indebtedness, the Export-Import Bank might to a limited extent participate in a plan devised for this purpose. Two previous "un-freezing" arrangements have been ineffective. It is believed that the Brazilian Government itself should find the means for paying off a part of these exchange arrears, and that if the rest is converted into an obligation, this obligation should run for as short a term as is feasible. No attempt has been made to decide exactly how far the Bank should go in participation, but prevailing opinion is that if it discounts the paper issued by the Brazilian Government for this purpose, it should be with recourse against the American exporter."

Mr. Welles: Now those three points, in my judgment, are clearly within the determination of the Treasury Department.

Dr. Feig: Besides the question of policy, they raise the question of authority and as far as I have been able to ascertain -- as for (1) I would say question to be decided: whether Treasury or Stabilization Fund has authority to make such a loan? As for (2), the public works thing, there is question of whether Treasury or Export-Import Bank has authority. As to (3), it seems fairly plainly within the authority of the Export-Import Bank.

You have three, at least two troublesome questions of authority. Unless it is decided that that authority exists or can be obtained, why it's, it will be obviously risky to enter into discussions with Aranha on the supposition that he can secure financial help, which is, of course, a universal supposition.

Now, as to the means of getting assistance, getting necessary authority, I must say the suggestion that appealed to me most was Wayne Taylor's suggestion. The question of renewal of the Bank charter is coming up



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anyway. That if we could get that charter amended so as to make it quite clear to Congress and the public that the Bank would have the authority to undertake any such types of operations as we designated here, if you then get that power you have it for Brazil and for any other situations of similar character you want to deal with.

I just mention that suggestion. I have no doubt of alternative ones, but I do urge consideration of the question of determining what we have to do in a financial way or what authority we wish to seek -- is the essential first question before we enter into talk with Aranha.

Mr. Taylor: It seemed to me in making that suggestion that I don't think it is necessary to amend the charter of the Bank, but that if in the discussions down on the Hill it clearly brought out that this type of operation not only is envisaged but is possible, that that is probably the place to do it. When we find out, fairly soon, what the attitude of Congress is about the Export-Import Bank ....

Mr. Pierson: Tomorrow at ten o'clock.

Mr. Taylor: Mr. Pierson, tomorrow, is going to get on the stand down there. Chances of getting through a specific piece of legislation, let's say, giving new authority to make specific loans to other countries or various other types of things, it seems to me, is not too good, but I think that we will have explained to Congress and given them every opportunity to act on the thing if we do it in the way I have suggested.

Mr. Welles: I am very much of that same opinion. Don't you feel, however, that with the exception of one or two people on the Hill that the general tendency would be one which would be decidedly favorable towards the kind of arrangement which is envisaged here in this memorandum, provided it is undertaken with other American Republics?

Mr. Taylor: I think so, but I think if we tried to introduce a specific piece of legislation we would

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run into serious difficulties.

Mr. Welles: I quite agree.

Mr. Taylor: Whereas by explaining fully to Congress the type of thing that the Bank can do when it appears in the National interest to do it, you are using the proper vehicle; you are giving full expression to any views that may be presented and you also keep it more in its proper setting.

Mr. Pierson: Does anyone have in mind that the Bank would be expected to do more than it has in its Haitian contract, except in so far as a larger sum might be involved? There we undertook to finance a public works program which involved purchase of goods in the United States, use of American services. A certain part of the funds are expended in Haiti. That has caused no alarm or unrest any place.

Dr. Feis: I think the operation under No. (1) is of a different kind.

Mr. Pierson: I was down to (2).

Dr. Feis: There is also a question of authority under (1). Question of authority right down the line.

Mr. Pierson: I don't think the Bank, under its present powers, would feel very happy about a loan of gold to Brazil which is used for something not directly connected with trade.

Mr. Taylor: If that is brought out in your discussions, however, before Congress that that type of operation could be considered, why I think you will have met that question.

Mr. Pierson: I am afraid if it is, it will not be renewed.

Mr. Welles: Of course, it will have to be clearly understood what we had in mind.

Mr. Taylor: That's a question of opinion.

Mr. Pierson: I can tell from letters I am getting



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there is common uneasiness on the Hill about the possibility of the Bank extending itself some distance.

HM, Jr: You may be interested, as far as the Chinese loan, I think I have yet to receive my first letter of criticism and I got a large mail. I don't mind your quoting me when you go up on the Hill.

Mr. Pierson: Letters we have had have had to do with American Republics more than the Chinese loan.

HM, Jr: I mean, my name was associated with it, but I have yet to get my first letter of criticism.

Mr. Pierson: Ours are almost 90 - 95% from those who own bonds that are now in default.

HM, Jr: That's another story.

Mr. Welles: Perhaps the best thing would be to go on reading the rest of the agenda.

"Part. II. The conditions under which these loans might be made and the agreements and arrangements with which it would be advisable to accompany them.

"If these actions are to serve their purposes of contributing towards the economic development and stability in Brazil and the improvement of relations between Brazil and the United States, the Brazilian Government should at the same time deal with various outstanding difficulties and put into force policies that will prevent their recurrence, and enable this financial assistance to produce the results desired.

"The main steps of this character which the Brazilian Government might be asked to consider outside of any agreements having to do directly with the creation of a central bank are:

"(1) Elaboration of the necessary agreements on the basis of which the central bank and public works loans might be made.

"(2) Development and fulfillment of the plan for resumption of service of the present Brazilian defaulted



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"debts. This scheme would of necessity provide only very modest payments, at any rate in the immediate future, and also perhaps permit Brazil to reacquire part of this debt at prices prevailing after loan service was resumed.

"(3) Understanding as regards the possibility of American enterprises in Brazil remitting some earnings as interest or dividends.

"(4) Understanding in regard to the position of American enterprise in Brazil.

Mr. Welles: That has to do with certain pending legislation which, if enacted, would seriously endanger American enterprises operating in Brazil, such as insurance companies, banks.

"Agreement upon and enforcement of arrangements and policies which would

- (a) Include necessary measures to deal with the present overdue exchange indebtedness.
- (b) Administration of policies to prevent the creation in the future of similar exchange arrears.
- (c) Arrangements to assure prompt provision of dollar exchange for future American exports.
- (d) Arrangements that would safeguard the competitive position of American trade in the Brazilian market, particularly in respect to the competition of trade carried out on the basis of compensation or payments agreements.

This set of problems has attended Brazilian-American commercial relations steadily during the past few years. It is to be hoped that when and as Brazilian external economic affairs can be put on a more stable and assured

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basis, they will just disappear. But in the meantime, it is deemed important to have arrangements adequately dealing with them, and proposals that seem to meet diverse difficulties and requirements not too unsatisfactory are set forth in the following Part III.

"Part III. Elements of possible program to deal with existing difficulties in the exchange and trade field.

"These difficulties have figured largely in our previous discussions with both Aranha and Souza-Costa and have been the subject of a vast amount of subsequent discussion. A great variety of suggestions has been put forward. No attempt will be made in this memorandum to examine all the alternative programs that might be put before the Brazilian Government for consideration as an adequate way of dealing with the situation. The committee has rather, on the basis of its discussion, tried to formulate that program which seemed to it the most promising and satisfactory preliminary basis of discussion with the Brazilian Government (bearing in mind that the program (a) must be reasonably effective, (b) acceptable to the Brazilian authorities, (c) not in conflict with our general commercial policy, (d) not giving ground for other countries, especially Germany, to claim that they are being unfairly pressed as part of a financial deal between ourselves and Brazil.

"The essentials of the suggested basis of discussion are as follows:

(a) That the present trade agreement between Brazil and the United States be retained in force.

Reiteration of the Brazilian policy to so safeguard its trade arrangements with other countries as not to impair the natural and anticipated advantages of the Brazilian-American trade agreement.

(b) That the Brazilian Government give a clear reiteration of the pledge contained in the exchange of notes accompanying the Brazilian-American trade agreement to the effect that it would make dollar exchange immediately available for the payment of exports from the United States (this might be supplemented and made more significant



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by a further statement that the Bank of Brazil would undertake to keep in the United States at all times a fund for the provision of the necessary dollar exchange).

(c) That Brazil will undertake as long as its products are sold in the United States for free exchange, not to make any of the free exchange available for the payment of goods from countries which do not permit the acquisition of free exchange in payment for Brazilian products.

(d) That the Brazilian Government should work out a plan for dealing with the present overdue exchange arrears, providing cash for some refunding of the rest on as favorable terms as possible to the creditors.

(e) That in order to prevent the recurrence of this situation, the Brazilian Government have effective arrangements whereby the total exchange liabilities occurring will not be in excess of the exchange available. Of the alternative means of achieving that and it is suggested that the Brazilian Government might well consider the inauguration of a policy whereby it enforced flexibly differential buying and selling rates of exchange. Under such a scheme the size of the differential could be varied according to the necessity of discouraging imports at any given time. Besides the quality of flexibility this arrangement would have the merits of not involving automatically any discrimination as between Brazil's sources of supply and of further making exchange available to the Brazilian Government at a favorable rate.

"If such a policy were effected, the Brazilian Government should promise that exchange would be provided for exports from the United States on a most-favored-nation basis (that the spread between the buying and selling rates applicable to American commerce should not be greater than that applicable to the commerce of any other country, including the commerce conducted under compensation arrangements).

"This still would leave it possible for Brazil to establish a scheme of cross-rates applying to the trade with Germany and other compensation countries that would leave American trade at its present disadvantage or increase that disadvantage - if the Brazilian Government



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"so chose. In that respect, we should be dependent upon the general pledge mentioned in (a) above - to effect which Brazil might have to continue to limit the quantity of its exports for blocked currencies.

(f) It would be agreed that there should be a periodic joint audit (possibly carried out on the basis of cooperation between the two central banks) of the exchange position of Brazil for the purpose of studying the effects of these arrangements and guaranteeing their satisfactory operation.

#### "Part IV.

"As stated above, it is to be hoped that internal and external economic conditions in Brazil will so develop that the Brazilian Government will not need to exercise the methods of control which are the subject of the preceding section. To contribute to that outcome -- and in logical connection with any plan of public works financing -- attention should be given to the long-run study of economic development in Brazil.

"This might well, as a first step, justify the creation of a joint committee to study the question of the means of promoting the production and sale of complementary products, such as rubber, cocoa, manganese. It is believed that there is much to be hoped for in this field.

#### "Part V.

"It is suggested that an additional possible field of arrangement that could be worked on at the same time as the preceding is the matter of the acquisition by the United States from Brazil of certain commodities on our strategic raw materials list. These would be delivered to the American Government for storage purposes. The provision of such materials might well be used to pay off in part the loans to be made."

HM, Jr.: On the whole, I think it is an excellent memorandum. I think this is an excellent memorandum. I say I am sorry, for one reason or another, I have not had a chance to study it. I realize time is pressing. I would like to take it and read it. There are certain

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aspects of it I would like to discuss with you (Mr. Welles) if I might, in preparation of our seeing the President. Have you a few minutes to stay now?

Mr. Welles: Yes, indeed.

HM, Jr: I would appreciate that.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 10, 1939

TO Secretary Morgenthau  
 FROM Mr. White

Subject: Summary of Data on Brazil

1. Brazil's debt situation.

(a) Total indebtedness of the Federal Government of Brazil is about \$950 million. Of this sum the external debt is \$695 million; the internal debt is about \$255 million.

(b) The Federal Government budget provides \$45 million for the servicing of the public debt. Of this sum \$13 million is for interest on the domestic debt and \$12 million, in the form of blocked milreis, is applied to the account of the foreign debt, and \$20 million is set aside to service the floating debt. The sum allocated in the Federal budget for servicing both domestic and foreign debts amounts to one-fifth of the total budget expenditures.

(c) The internal debt of Brazil is not in default. The external debt of Brazil was in partial default from March 1934 to November 1937, and has been in complete default since November 1937. Under the Aranha plan in force between March 1934 and November 1937 interest and amortization payments were scaled down to less than half. Payments during those four years totalled \$163 million.

(d) The total external debt of Brazilian governments including State and municipalities is \$1,140 million

Debt in dollar bonds	\$ 360	"
Debt in sterling bonds (equal to)	735	"
Debt in franc bonds (equal to)	45	"

2. Foreign trade of Brazil

(a) Brazil during the post war period, except for depression years, had a favorable balance of trade of \$50-\$100 millions. In 1937, however, the balance dropped to \$17 million and in 1938 the favorable balance was completely wiped out.



(b) Brazil's exports were \$350 million in 1937 and dropped to about \$270 million in 1938.

(c) Brazil's imports have risen steadily from \$200 million in 1934 to \$330 million in 1937. They dropped in 1938 to about \$270 million.

(d) Brazil normally has a large favorable balance with the United States, ranging from \$50 to \$75 million in the past five years. In 1938, however, the favorable balance will probably drop to less than \$30 million. Brazil had an unfavorable balance of trade with Germany and with the United Kingdom during the past five years.

### 3. Brazilian foreign exchange situation.

(a) It is estimated that the total blocked balances in Brazil on account of exporters and private foreign businesses in Brazil, is \$65 million, of which \$25 million are blocked accounts which go to the United States. This is a rough estimate and more accurate figures will doubtless be obtainable from Mr. Aranha.

(b) Brazil can acquire substantial amounts of foreign exchange only through a favorable balance of trade or through capital imports. Her needs for outpayment consist of \$40 to \$60 million a year for remittances of foreign companies operating in Brazil, and for servicing private foreign debt. At the present time she has a further need of roughly \$65 million in foreign exchange to clear up all existing arrears.

Therefore, Brazil needs a favorable balance of trade in 1939 of at least \$100 million if she is to clear up the arrears and meet the foreign exchange obligations during the year. If the debt settlement is on the basis of outpayments of \$25 millions, Brazil will need a favorable balance of trade of about \$125 millions. This sum is greater than the balance of trade in any year since 1919.

(c) It should be noted in this connection that Brazil has been importing armaments on a large scale. It is estimated that imports of armaments amounted to \$60 million in 1938 and she already has contracts outstanding that would involve an expenditure of \$25 million in 1939.

### Miscellaneous

(a) We have been able to find eight instances in which foreign governments have scaled down their debts by reducing the amount of principal. (Three of these instances are mentioned in Mr. Feis' own book entitled "Europe, the World's Banker, 1870 to 1914".)

Secretary Morgenthau - 3

(b) The Argentine Government's external debt is only one-third as much as Brazil's, amounting to \$375 million. The internal debt, on the other hand, is much larger, amounting to \$1,100 million. There is much more foreign capital invested in Argentina than in Brazil and requires more than \$100 million of foreign exchange per year to remit profits and interest on these foreign investments.

Argentina has not defaulted on any of her foreign or domestic debts. She also has more than ten times as much gold and foreign exchange than has Brazil. In 1937 Argentina was able to reduce this outstanding foreign debt by \$150 million. Brazil, of course, was not even able to pay interest on her foreign debt.

American  
Direct Investment in Brazil

American capital is invested in Brazil through (1) wholly owned American, subsidiaries, (2) Brazilian companies in which American capital is in control, (3) Brazilian companies in which American investment is substantial but not necessarily controlling, (4) Miscellaneous investments

As of December 31, 1936, it was estimated by the Department of Commerce that American direct investments totalled \$194,345,000, divided as follows:

(In thousands of dollars)

	Number <u>Organizations</u>	<u>Value</u>
Manufacturing	30	50,183
Distribution	25	15,612
Petroleum	4	32,578
Public Utilities and Transportation	9	84,411
Miscellaneous *	13	11,461
	<u>81</u>	<u>194,345</u>

\* Includes agriculture, mining, etc.

The Department of Commerce estimated American investment in industrial enterprises in 1918 as \$50,000,000, and in 1925 as \$100,000,000. At the end of 1933, direct investments were estimated at \$197,000,000 (book values).

Following are some of the companies which ~~have~~ are operating in Brazil, either wholly owned, or with substantial American investments:

United States Steel Corp. - manganese mines, shipping  
 Wilson & Co. - meat  
 Swift & Co.       "  
 Armour Co.       "  
 Brazilian Traction, Light & Power Co. Ltd.  
 International Telephone & Telegraph Co.  
 Electric Bond & Share Co.  
 American Foreign & Power Co.  
 Intercontinents Power Co.  
 Ronslock Brazil Co. - cotton seed oil mills  
 Caloric Oil Co. - bunkering and oil distribution  
 Atlantic Refining Co.  
 Standard Oil Co.  
 Texas Co.  
 DuPont de Nemours  
 Singer Sewing Machiner Co.



United ~~xxxx~~ Shoe Machinery Co.  
General Electric Co.  
All America Cables Co.  
Diamond Match Co.  
Ford Motor Co. - rubber plantations and auto plants  
General Motors  
International Machinery Co.  
Worthington Pump & Machinery Co.  
Radio Corporation of America  
Ulen & Co.  
The Foundation Company  
Westinghouse Electric & Mfg. Co.

Source: Dunn - American Foreign Investments  
Winkler - Investments of U.S. Capital in Latin America  
Dept Commerce - American Direct Investments in Foreign Countries - 1936

Brazil's Debt Situation

1. The total debt of the Brazilian Government

(a) Total outstanding debt of the Federal Government of Brazil is about \$950 million.

Of that sum about \$250 million is the domestic debt (payable in milreis).

The amount allocated in the budget for servicing these debts, as recorded in the budget for 1939, was \$45 million. This included \$33 million for the domestic debt, and the remainder, in blocked milreis, to be applied to the account of the foreign debt.

2. The internal debt of the Brazilian Government.

The internal Federal Government debt of Brazil is \$250 million.

Brazil is fully servicing her Federal Government domestic debt. The total payments set aside this year for servicing the debt is \$33 million. Payments are, of course, in milreis and no defaults have taken place, nor have the interest payments been scaled down.

Both interest payments and amortization payments on the Federal domestic debt amount to about one-fifth of the total Federal Government budget expenditures in 1939.

3. The external debt of Brazil.

(a) The total external debt of Brazil (including State and local governments) now outstanding is \$1,140 millions in bonds, excluding interest arrears.

Debt in dollar bonds	\$360 million
" " sterling bonds	735 "
" " franc bonds	45 "
Total	\$1140 "

Of the total outstanding funded debt of \$1140 million:

Debt of Federal Government is	\$ 697 million
" " State " "	285 "
" " Municipalities " "	108 "
" " "Coffee Defense" (guaranteed by State of Sao Paulo)	50 "
	\$1140

Brazil's total foreign debt has been in complete default since November 1937. She has not paid any interest or payments on principal since November 1937 when the Aranha plan was dropped. However, the Federal Government appropriates milreis balances to help toward ultimate servicing, and the milreis are blocked in the Bank of Brazil. In 1939 about \$12 million (in milreis) were included in the budget for that purpose. These funds presumably are available for agricultural loans by the Bank.

4. The Aranha plan for foreign debt payment.

The full service of the outstanding debt (including Federal, State, and municipal) would have required interest payments of roughly \$70 million and amortization of \$30 million, but the Aranha plan cut the payments less than half. The Aranha plan was in force from 1934 to November 1937 though it was supposed to run through December 1937.

The plan called for payments of amortization and full interest on 20 percent of the debt, and partial interest on all but 5 percent of the balance. Payments started at \$35 million in 1934 and increased yearly to \$45 million in 1937. Under this plan a total of \$163 million was paid, the bulk of which was on account of interest. The payment of this \$163 million over the four year period retired, according to Aranha, coupons having a nominal value of \$440 million.

The Aranha plan was accepted by the foreign bondholders under protest. The division of the payments among the three countries, particularly as between American and British bondholders, was a matter of much controversy with Dr. Reuben Clark representing the United States interests and Sir Otto Niemeyer representing the British.

The Federal Government has been in default of her external debt twice before; each time the arrears were funded (in 1898 and 1914). At no time were either the interest or principal scaled down.

The record of the State and municipal governments servicing of foreign debts is very uneven. Two of the States — Sao Paulo and Rio de Janeiro —, and the city of Rio de Janeiro, had a perfect record until 1930. Other States and cities have defaulted from time to time.



Brazil's Foreign Exchange Situation

I. Present blocked balances.

1. It is estimated that the blocked balances in Brazil now amount to about \$60 million, made up as follows:

(a) To exporters in U.S.	\$15 million
(b) " " of other countries	25 "
(c) Profits and interest on private account due U.S.	10 "
(d) " " " " " " in other countries	15 "
Total blocked accounts to U.S.	25 "
" " " " " other countries	40 "

2. How much foreign exchange does Brazil need in 1939?

(a) Before exchange control was introduced (1931) Brazil remitted each year for dividends, interest, etc., to all foreign countries on private account about \$60 million. If interest, dividend and profits were free to leave the country, probably from \$30 to \$50 million of foreign exchange would be used up in 1939.

(b) Exclusive of any payments on the Brazilian Government's foreign debts Brazil would need about \$65 million to clean up on present blocked accounts, and about \$40 million more during 1939 to meet remittances of interest, dividends, etc. on private account.

(c) Feis mentioned a possibility of scaling down of interest payments to 2 percent. Were this to be accepted it would call for outpayments of \$25 million a year, allowing for no payments on account of principal.

(d) Altogether Brazil would need on the above basis about \$100 million of foreign exchange - about half of which would go to the United States, exclusive of payments on her foreign debt.

3. How much foreign exchange can Brazil accumulate next year?

(a) Brazil now has \$33 million in gold assets and practically no foreign exchange. This is her only monetary reserve and she would be most reluctant to let any part of it go.

(b) She has stepped up her gold production to about \$7 million a year.

(c) She produces practically no silver.

(d) Her balance of trade for 1939 is very uncertain, owing to its chief dependence upon prices of coffee and cotton. As things look now it is not likely this year's exports will increase by more than \$50 million - or 15 percent.

(e) She can cut down her imports by government action and by curtailing her expenditures on armaments. Her expenditures on armament imports for next year are going to be at least \$30 million on outstanding contracts, and we do not know how much more is contemplated. In 1938 Brazil expended \$60 million on imported armaments.

Conclusion:

If:

- (a) Brazil can cut her armament imports in half,
- (b) If her export situation becomes favorable, and
- (c) If payments due on her government debt are scaled down to \$25 million;

Then, Brazil can, we believe, clean up her arrears during the present year and meet her necessary outpayments during 1939 without any financial assistance from us.

But, should her export situation not develop favorably and should she not curtail her armament imports she will be as bad off a year from today as now (assuming, of course, we do not extend her credits that she can employ to clean up present blocked balances, or finance some portion of her imports).



A. Significant features of the Brazilian proposal:

1. The capital stock of the corporation will be the equivalent of \$5 million. The Brazilian Treasury will subscribe 60 percent of it. The balance will be sold to the public in Brazil and in the United States. It will be a limited dividend corporation with the maximum return on stock being 8 percent and the minimum return of 4 percent guaranteed (by the Brazilian Government). Eighty percent of the profits of the company in excess of the 8 percent dividend will be devoted to reducing the liabilities of the company and 20 percent will be added to reserves.

2. The corporation will obtain most of its operating funds from a bond issue of \$100 million in the following manner: \$50 million to be supplied by the United States Government, and \$50 million of bonds to be sold to the American public. However, Americans will be permitted to subscribe to the equivalent of \$25 million of the public issue with blocked milreis. The bond issue will be at 4 percent interest and will be guaranteed by the Brazilian Treasury. The United States Government will agree to facilitate additional loans to the corporation at 4 percent interest, the loans to be guaranteed by the milreis capital of the corporation.

3. The corporation will agree to buy in the United States the imported materials it will need in its construction activities and the company will utilize the services of American technicians.

4. The corporation will carry out the sale of Brazilian raw materials and products in the United States and those companies which purchase Brazilian raw materials will be given preference in the export of their products to Brazil.

5. There is some ambiguity as to the time length of the loan; in the proposal it is stated that the loan will be redeemed at the end of five years; however, the loan will be amortized at the rate of \$4 million a year, which would be a twenty-five year loan.

6. The proposal contains the provision that the Brazilian Government will give preference in its purchases to the products of industries developed by the corporation. There is also a provision limiting the sums which the company can spend in administrative expenses to \$1 million per year.

7. The corporation's activities will be directed towards the acquisition of mining properties in Brazil, the expansion of industrial activity, particularly the development of an iron and steel industry, the renovation of the rolling stock of the Brazilian railroads, and the development of the production of rubber, vegetable oils and petroleum.



B. Some questions raised by the memorandum:

1. It would probably be very difficult to float a loan in this country of 4 percent bonds, of which at least \$25 million is to be sold to the American public.

2. The subscription for \$50 million of bonds by the United States corporation may be carried out through the Export-Import Bank or would need Congressional action.

3. The activities proposed for the corporation are such as probably will not yield a profit for some years after commencing operations. The plan should probably be modified in part to adjust to this fact.

5. There is no specific provision for participation in the control of the corporation by American interests or by United States Government representatives during the early years.

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B. Some questions raised by first reading of the proposal:

1. It would probably be very difficult to float a loan in this country of 4 percent bonds, of which at least \$25 million is to be sold to the American public.

2. The activities proposed for the corporation are such as probably will not yield a profit for some years after commencing operations. The plan should probably be modified in part to adjust to this fact.

3. There is no specific provision for participation in the control of the corporation by American interests or by United States Government representatives.

4. The subscription for \$50 million of bonds by the United States corporation may be carried out through the Export-Import Bank or would need Congressional action.

POLICY TO BE FOLLOWED IN ORGANIZING THE CENTRAL RESERVE  
BANK OF BRAZIL



OPIA.

CAPITAL: The Central Reserve Bank of Brazil shall have an initial capital of 50,000 contos, with the possibility of it being increased.

There is no necessity of establishing the bank with too large a capital, as this would cause a tendency for obtaining large profits, capable of remunerating a number of shares excessively high, which would defeat the purpose of establishing a cheap credit for legitimate economic activities.

Later, after it has been proved in a practical manner that the bank operating under normal conditions is able to take care of its running expenses and to pay a reasonable dividend, the capital could be increased.

GOLD RESERVE: Assuming that the minimum gold reserve (gold and currency) would be 30% of the total amount of the paper currency in circulation and other immediate obligations and since Brazil at the present time does not dispose of the necessary resources to fully establish such reserve, it should be built up gradually in the following manner:

- a) Gold which will be delivered by the Federal Government as part payment of the debt arising from the transfer of the responsibility of the currency circulation;
- b) Obligations to be issued by the Federal Government to a total which will cover the difference between the minimum gold reserve amount and the gold value mentioned under item "a".

These obligations may only be sold by the Bank in the free market to buy currency, provided that the situation of both the capital and exchange markets will stand such an operation. The currency bought in this manner will revert, then, to the gold reserve

reserve balance, with the faculty of being transferred into metal, as guaranteed by the recent agreement with the United States Government.

The Brazilian Government can also, by purchasing gold mined in Brazil, which will be delivered to the bank, redeem the obligations issued in values corresponding to the metal thus delivered. However, it shall in any way redeem, annually, a certain part of the aforesaid obligations.

In this manner the total issues of bonds will only tend to decrease and to be transformed gradually into gold.

BANKING LEGISLATION: In the banking legislation which is to be passed simultaneously with the creation of the Central Reserve Bank, the commercial banks shall be obliged to have minimum reserves for their current accounts and time deposits, 50% of which will be compulsorily deposited in the Central Reserve Bank.

In the same manner as the United States Federal Reserve System adopted through the Act of 1935, the Central Bank of Brazil will have the faculty of modifying the minimum limits of these reserves.

GOVERNMENTAL CONTROL: As has been found advisable in view of present world trends, the Federal Government must have a preponderant influence in the management of the Bank, so as to place it in tune with the legitimate economic interests of the country.

OPIA.

THE PROBLEM OF THE EXTERNAL DEBT

I - The suspension of payments of the external debt of Brazil - Federal and State as well as municipal - is no longer a subject of debate, since the absolute impossibility of transferring the funds necessary for such payments, which the Brazilian Government faced on November 10, 1937, has become evident from the following trade figures.

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
	(in pounds sterling)		
1928	97.426.000	90.668.000	6.757.000
1929	94.831.000	86.653.000	8.177.000
1930	65.745.000	53.618.000	12.127.000
1931	49.543.000	28.755.000	20.788.000
1932	36.629.000	21.744.000	14.885.000
1933	35.790.000	28.131.000	7.658.000
1934	25.239.000	25.467.000	9.772.000
1935	33.011.000	27.431.000	5.580.000
1936	39.069.000	30.065.000	9.003.000
1937	42.529.000	40.607.000	1.922.000
1938	36.537.000	35.834.000	523.000

The suspension was not, therefore, a mere official act, nor was it in any way a result of a political transformation or of an alteration of the traditional policy of Brazil, but indeed an unavoidable and imperative imposition of facts, proved by actual figures.

II - Other factors, equally independent from the will of the Brazilian Government and from the labour of the Brazilian people, were added, some of which derived from the decrease in value of our foreign trade, and others from universal phenomena, which were likewise beyond all control; such factors also having contributed, not only to create the impossibility of pur-



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pursuing the payment of the external debt, but also that of resuming, even now, the service of the debt.

<u>Year</u>	<u>Exports</u> (in pounds sterling)	<u>Minus difference as compared</u> <u>with figures for the year 1929</u>
1928	97.400.000	----
1929	94.800.000	----
1930	65.700.000	29.100.000
1931	49.500.000	45.300.000
1932	36.600.000	58.200.000
1933	36.800.000	58.000.000
1934	35.200.000	59.600.000
1935	33.000.000	61.800.000
1936	39.000.000	55.800.000
1937	42.500.000	52.300.000
1938	36.537.000	58.443.000
	<hr/> 566.857.000	<hr/> 478.543.000

III - At the beginning of the world depression, Brazil possessed in its Treasury upwards of thirty million pounds sterling, in addition to large commercial credits abroad, which tended to keep up the volume and value of foreign trade. The depression, however, entailing, as it did, the sudden closing of bank accounts, especially in the United States, forced the Brazilian Government to use its gold reserves for the hasty liquidations imposed on the economy of the country. Brazil set, in that circumstance, a standard of effort and sacrifice which has been surpassed by none, in the hope of retaining its credit and deserving the cooperation of its creditors.

IV - The result of such efforts was unfortunately negative, not only because foreign credits were not maintained - which would have been indispensable in order that the volume and

and value of foreign trade should not fall off - but also because normal banking credits were reduced to insignificant amounts in several countries, and entirely suppressed in the United States, from which quarter we could least expect such a line of action, considering the punctuality with which our obligations in that country had been met, even at the low of the depression. Such a situation brought about, as a matter of course, the devaluation of Brazilian currency, as follows: -

Percentages of depreciation of the milreis

Year	Free quotations	Official quotations
1928	0,0%	-
1929	1,3%	-
1930	9,1%	-
1931	37,8%	47,8%
1932	-	40,5%
1933	-	47,1%
1934	66,5%	57,8%
1935	71,2%	57,9%
1936	71,3%	57,3%
1937	70,0%	57,3%
1938	-	71,3%

The price of imports has doubled, and the price of exports decreased, both in terms of pounds and of milreis, so that we have been compelled to more than double the volume of our exports, in order to attenuate the decrease in the total value of transactions. The lack of funds available abroad was naturally followed by the scarcity of means at home, thus aggravating the depression in the general economy of the country.

V - Brazil faced that emergency in a spirit of absolute self-sacrifice, trusting that her conduct would tend to re-establish the situation of good-will and cooperation between coun-

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countries, which had existed prior to the depression and indispensable to the progress and welfare of each and every Nation.

<u>Year</u>	<u>Favorable balance of foreign trade</u> (in pounds sterling)	<u>Remittances for the service of the ex- ternal debt</u>
1928	6.757.000	16.135.000
1929	8.177.000	17.390.000
1930	12.127.000	19.883.000
1931	20.788.000	17.689.000
1932	14.885.000	6.682.000
1933	11.296.000	6.449.000
1934	16.033.000	7.108.000
1935	9.049.000	7.494.000
1936	14.811.000	8.012.000
1937	3.329.000	9.900.000
	<hr/> 117.252.000	<hr/> 116.742.000

VI - The above figures suffice to demonstrate:

- a) that Brazil, in the most difficult periods, paid its debts, even when it involved the sacrifice of gold reserves and the assessment of heavy internal contributions for that purpose;
- b) that Brazil has reached the extreme limit of self-sacrifice, making remittance of the whole of its favorable trade balance in order to fulfill its obligations, under the so-called "Oswaldo Aranha scheme";
- c) that payments were suspended only on November 10, 1937, after all possible resources had been exhausted, and owing to the absolute material impossibility continuing the payments.



payments.

VII - The situation which forced the Government to suspend payments in 1937 was not altered for the better in 1938; on the contrary, during that year there was every indication of increasing difficulties. Foreign trade figures for the year 1938 show a still decreasing value of exports in terms of gold and an increasing value of imports in terms of milreis: the purchasing and paying capacity of Brazil is steadily decreasing, in free currencies, because the value of Brazilian exports to countries trading in free currencies is decreasing, notwithstanding the increase in quantity of such exports.

Such countries (United States, Great Britain, France and Argentina) purchased from Brazil in the five years extending from 1928 to 1932, merchandise worth \$225,167,000, gold currency, against only \$115,347,000 in the five years following (1933-1937). The annual average during the former period was \$45,033,000, against \$23,069,000 for the latter, and only \$19,103,000 for the year 1938.

Foreign Trade Balances

Year	U.S.A.	Great Britain	France	Argentina
1928	+ 20,189,000	- 16,164,000	+ 3,175,000	- 4,678,000
1929	+ 13,921,000	- 10,468,000	+ 5,948,000	- 3,451,000
1930	+ 13,567,000	- 4,948,000	+ 3,356,000	- 2,690,000
1931	+ 14,424,000	- 1,458,000	+ 3,244,000	- 1,264,000
1932	+ 10,222,000	- 1,604,000	+ 2,165,000	+ 590,000
1933	+ 10,759,000	- 2,792,000	+ 1,830,000	- 1,713,000
1934	+ 7,773,000	- 102,000	+ 1,561,000	- 1,487,000
1935	+ 6,612,000	- 354,000	+ 1,737,000	- 1,916,000
1936	+ 8,528,000	+ 1,277,000	+ 1,997,000	- 3,355,000
1937	+ 6,056,000	- 1,052,000	+ 1,743,000	- 3,678,000
1938	+ 3,373,000	- 267,000	+ 1,268,000	- 3,180,000

Summary

1928 to 1932	+72.323.000	-34.642.000	+17.899.000	-11.493.00
1933 to 1937	+39.728.000	- 3.023.000	+ 8,868.000	-12.149.00

BRAZILIAN EXPORTS  
(in £1,000 sterling)

	Yearly average 1st. 5-year period	D° 2nd period (1933-1937)	Estimate for 1938
United States...	29.847	14.821	11.912
Great Britain...	4.223	3.702	3.314
France.....	6.676	2.800	2.341
Argentine.....	4.286	1.745	1.530

Percentual alterations

	In the 2nd. 5-year period as compared with the 1st.	In the year 1938 as compared with 1st. period	the 2nd d°
United States...	-50%	-60%	-19%
Great Britain...	-12%	-21%	-10%
France.....	-58%	-64%	-16%
Argentine.....	-59%	-64%	-12%

Brazilian Imports

United States...	15.382	6.875	8.545
Great Britain...	11.152	4.307	3.581
France.....	3.098	1.027	1.073
Argentine.....	6.584	4.174	4.710

Percentual alterations

United States...	-55%	-44%	-24%
Great Britain...	-61%	-67%	-16%
France.....	-66%	-65%	- 4%
Argentine.....	-36%	-28%	-12%

VIII - The suggestions received from British, French, or Swiss sources, for the relief of this situation, may

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may be summarized as follows:

a) Consolidation of the Federal, State and municipal debts, in a new issue, with a reduction both of the capital and the interest, and an extension of term;

b) financial and economic cooperation of creditors for the drafting and execution of a plan, similar to that adopted by Chile;

c) gradual nationalization of the debt;

d) purchase of bonds in foreign markets, with the available funds, until the favorable trade balances be sufficient to permit resumption of interest.

IX - Nothing concerns more the Government and the people of Brazil, than the absolute impossibility in which the country has found itself, through no fault of its own, of resuming the payment of its external debt; wherefore we are both willing and anxious to consider any suggestion tending to remove such an impossibility, at the earliest possible time, and under the most favorable conditions for our creditors.



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A credit of 20 million dollars to the Carteira Cambial of the Bank of Brazil (Exchange Department of the Bank of Brazil) in order to release the exchange for the current trade, is suggested in the following terms:

## DECREE

Art. 1 - Liberty for exchange operations in connection with normal trade shall be reestablished in the terms of this Decree and to take effect on the date of its publication.

Art. 2 - Export drafts shall be sold in the open market and shall be applied exclusively to payments of imports.

Paragraph - The Exchange Control Department will supply export permits only upon presentation of proof by the exporter to show that the exchange has been sold in accordance with the terms of this Decree.

Art. 3 - The Banks purchasing export drafts will be obligated to sell to the Bank of Brazil on a sight draft on London or New York in accordance with the rate established daily by the Bank of Brazil, 10% of the amount of each bill of exchange purchased.

Should the exchange draft be issued in other currency the conversion to pounds sterling or dollars shall be made on a basis of its parity in London or New York on the day of purchase.

Art. 4 - The purchase of exchange for the payment of importations shall be made in the same manner as that of sales for exportation in the open market and with the previous authorization of the Exchange Control Department.

Art. 5 - The exchange for the payments of collections overdue up to the date of this Decree, the equivalent of which in Brazilian currency has been deposited in the form of in-

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instructions in effect cannot be purchased in the open market. The Banco do Brasil will furnish the necessary coverages for this purpose through the official exchange rate in effect on the date of the publication of this Decree or that of the open market as may be found more convenient for the purchaser.

Art. 6 - Transfers other than those issuing from current export and import trade may be made only through the Banco do Brasil.

Art. 7 - Foreign tourists shall sell openly to the Banks, Exchange Houses or Banking Firms the amounts of their letters of credit, travellers' checks or foreign exchange and may re-exchange the national currency should they so desire. The funds made available in this manner to the Banks, Exchange Houses or Banking Firms must be applied by them exclusively in the sale of drafts, letters of credit, payment orders or foreign currency, to persons duly authorized to purchase same through the Bank Control for purposes of travel or living expenses abroad.

Paragraph - Such operations must be entered separately and reported daily to the Bank Control (Fiscalização Bancária).

Art. 8 - Exchange operations in compensated currencies shall be handled exclusively by the Banco do Brasil which shall alter its quotation in accordance with the fluctuations of currencies having free course in the international open market.

Art. 9 - The Bank of Brazil may not maintain a "bought" exchange position on compensated currencies and may purchase them only for coverage of sales made previously or at the same time.

Art. 10.- With the exception of the Banco do Brasil, Banks shall not maintain a "bought" position above 5000 pounds ster-

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sterling or its equivalent in other currencies.

Art. 11 - The Banco do Brasil will perform all exchange operations pertaining to private capital, swaps, reports and others, at the rates prevailing in the open market. The Bank shall take care of the service of private capital within the limits of its available funds as practicable.

Art. 12 - All governmental departments and public services, federal, state or municipal, must handle all their operations and transactions through the Banco do Brasil.

Art. 13 - The Banks, Exchange Houses or Banking Firms which violate the provisions of this Decree, applying for purposes other than those herein prescribed the funds available, shall have their banking licenses cancelled and may no longer operate on exchange transactions.

Art. 14 - All provisions to the contrary are hereby revoked.



## THE ECONOMIC EQUIPMENT OF BRAZIL

I - Brazil is a new country in the economic sense of the word, and it is therefore a debtor country. Its exports consist chiefly of raw materials and foodstuffs, and this fact compels it to compete in world markets with the produce of colonial regions.

II - The economic development of Brazil had been proceeding up to the time of the crisis of 1929, in the same manner as that of all new countries, namely, through the cooperation of foreign capital secured by loans, both public and private. In accordance with the logic of the system, funds obtained in this manner should contribute toward the expansion of the economic equipment of such countries, resulting in a gradual increment in their exportable production, until a situation were reached in which the increasing balances should permit them to take care of the annual service of their respective foreign debts.

Brazil had not yet attained this stage when the system under which its economic evolution was being processed was abruptly interrupted by the cessation of international loans. The prices of raw materials, by reason of the crisis, underwent a deep depreciation, and the economic equipment of the country became greatly diminished, with a constant corresponding reduction in its trade balances. The present situation constitutes a vicious circle: the heavy reduction in the gold value of exports does not permit purchase abroad of materials necessary for renewal and expansion of the economic equipment, while, on the other hand, the inadequacy of the present economic equipment prevents the increase of the exportable production through industrialization of certain products in respect to which Brazil

Brazil offers immense potentialities.

III - The following items will convey an idea of the deficiencies in the present economic equipment of Brazil:

- a) The railways in operation at present in the country, - about 33,000 kilometers (20,600 miles) - require yearly for track maintenance from 150 to 220 thousand tons of rails, but these necessary renewals have not been made in recent years, to the enormous detriment of the transportation industry.
- b) Rolling stock, comprising at present 5,000 locomotives and 70,000 passenger and freight cars, must be renewed at the yearly rate of 180 locomotives and 3,500 cars, which is impossible under present circumstances.
- c) Briefly, it would not be an exaggeration to estimate requirements for yearly renewals at 200,000 tons of rails, 200 locomotives and 4,000 cars. In order to carry out its railway program, the Brazilian government would have to build an average of 10,000 kilometers yearly, and for such new construction it would need one million tons of rails, bridge materials, etc., besides 50 locomotives and 1,000 cars to serve these extensions. This in respect to railways alone, without consideration of the necessities of national defense as well as requirements in other departments, such as civil aeronautics, ports and shipping, drought prevention, radio and telegraphic communications, etc.

IV - It is urgent therefore that Brazil attack the overshadowing problem of providing the country with an economic equipment equal to the requirements of production and consumption of a population of 45 million. Brazil is today in an economic situation comparable to that of Russia at the end of



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of the World War: an economy based on production and export of raw materials and foodstuffs, compelled through loan obligations to pay abroad yearly sums fixed on a gold standard, and yet unable to do so owing to insufficient trade balances. The Russian government understood at once the necessity of equipping the country economically. Approaching Germany at Rapallo in 1922, Russia initiated, through the Piatakoff agreements, a policy of intense cooperation with the former, by means of which it was made possible to acquire in exchange for raw materials the products indispensable to the execution of the Russian plans for economic restoration. In the same manner, without the cooperation of a highly industrialized country possessing advanced technological qualifications, Brazil will be unable to carry out with the necessary speed its economic reconstruction, an essential condition for the elevation of the social level of its people. Such cooperation, which would consist of facilities for procurement of the necessary economic equipment in return for raw materials, - the only form of payment within its power, - has been offered to Brazil on sundry occasions by the totalitarian countries, Germany, Italy and Japan, which are under pressing need for these materials. Motives of a political nature, and fear of the influence which those countries might exercise over the economy of Brazil, led the government to decline these offers.

V - Will the United States be disposed to extend its cooperation in order to enable Brazil to overcome the deficiencies in its equipment?

The complementary position which characterizes the economy of the two countries lends to such a cooperation a multiplicity of aspects and presents enormous latent possibilities. Not only could the industries of America procure in Brazil many raw



raw materials which they need, and which are not produced or do not exist in sufficient quantities in the United States, - rubber, iron, manganese and other ores, vegetable oils, fibers, etc., - but the economic progress which Brazil would reap from this cooperation would result in the broadening of the Brazilian market for American manufactures, thus creating a close economic interdependence, the immense political scope of which cannot be gainsaid, between the two countries having the largest population on the Continent.

VI - The cooperation in question could consist of the granting of long term credits intended partly for the immediate purchase in the American market of transportation materials and partly for the installation of an iron and steel industry on a large scale, for which conditions are favorable in Brazil and without which the country cannot accelerate the rhythm of its economic progress.

VII - In accordance with studies which have been made, the installation of iron and steel mills in Brazil must be conjugated with the export of a certain quantity of iron ore, with the purpose not only of ensuring a supply of coal at low prices, but also to finance the installation of smelters and the creation of an ore transportation system. With regard to transportation, two equally possible solutions are presented, namely, either through the Rio Doce Valley to the port of Santa Cruz, which would require the construction of a railway, or else through the Central do Brazil Railway, involving the adaptation of this line to the economical transportation of ore. The payment of the credits in question could be guaranteed by the income from the transportation of ore, with the cooperation of American metallurgical centers, which could only profit through the importation of high grade Brazilian ore.

ore.

VIII - If Brazil finds it cannot count upon the cooperation of the United States for the realization of this enterprise, so vital to its development, it will be compelled to accept association with another industrial country. The expansion of our trade with Germany during recent years reveals the necessity in which Brazil is placed of having to equip itself economically and to pay for its equipment with the only coin it possesses - raw materials.

IX - In addition to this association in a plan for the large scale development of the economic equipment of Brazil through the creation of basic industries, a more direct participation by American capital and technicians in the work of mobilization of Brazilian riches imposes itself.

Vast possibilities are open in this direction. The reason for the decline in the trade between the two countries must be sought for also in the scant participation by these elements in the internal development of Brazil, in accordance with the maxim, "Trade follows investment". While the Germans, Italians and Japanese partake with growing activity in the organization of Brazilian production, both agricultural and industrial, and in financing exportation, employing many technical men and maintaining commercial banks, in addition to hundreds of thousands of their nationals and descendants of same who are permanently established in Brazil, the United States have invested little in productive activities there; American technicians are few, and there is no commercial bank, for the only American banking establishment in Brazil limits its operations to deposits and exchange. Such indifference and apathy on the part of American interests in Brazil is in ever-growing contrast with the dynamic creative attitude of the nationals of the aforementioned coun-

countries.

As examples of forms of possible participation in the internal development of Brazil the following may be mentioned:

- 1) Investment in the production and export of articles needed by the American market: - rubber, vegetable oils, fibers, iron, manganese, nickel and other ores;
- 2) Establishment of commercial banks for the financing of production.
- 3) Participation by a group of American banks, under the direction of the Federal Reserve Bank, in the financing of trade with Brazil, through the concession of credits.
- 4) Colonization of certain regions in São Paulo and Rio Grande do Sul by American citizens who may wish to purchase and cultivate lands in these regions.