

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



GENERAL

E/CN.12/166/Add.2 ^{1/}
24 April 1950

ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Third Session - 5 June 1950
Montevideo, Uruguay

ECONOMIC AND LEGAL STATUS OF FOREIGN INVESTMENTS
IN SELECTED COUNTRIES OF LATIN AMERICA

(Prepared by the Secretariat)

FOREIGN INVESTMENTS IN BRAZIL

TABLE OF CONTENTS

	<u>Page</u>
I. The nature of foreign investments in Brazil	2
A. External government debt.	2
B. Direct investments.	14
II. Economic significance of foreign investments.	21
A. Industrial distribution	21
B. Foreign investments and economic developments	31
C. Foreign investments and the balance of payments	34
D. Exchange control.	41
III. Government policy and foreign investments	44
A. Entry of foreign enterprises.	45
B. Control of investments in particular industries	49
C. Government participation in the economy	56
D. Taxation.	59
E. Tariffs	61
F. Other aspects of policy	62

1/ This document has been reproduced in New York from the original issued at Montevideo.

/I. THE NATURE
E/CN.12/166/Add.2

I. THE NATURE OF FOREIGN INVESTMENTS IN BRAZIL

Foreign investments have played a part in the economy of Brazil since the early nineteenth century. Until the end of the century private loans to governmental authorities predominated. Beginning with British investments in railways and public utilities around 1860, direct foreign investments became increasingly important. Their growth continued until halted by the depression of the 1930's. During the last war and in the past few years direct investments, largely by United States enterprises have been resumed on a limited scale. Investments in Brazil by governmental agencies, in the form of loans by the United States Export-Import Bank, and more recently by the International Bank for Reconstruction and Development first appeared around 1935 and have predominated in recent years.

A. External government debt

Brazil's external indebtedness began with loans by English private banks for the account of Portugal's Brazilian colony early in the nineteenth century. A portion of this debt was assumed by the Brazilian "Empire" upon the liberation of the Portuguese colony in 1825. After the founding of the Republic in 1889 the external debt of the federal government, states and municipalities grew nine-fold to a maximum of \$1,246 million (£267 million) in 1931 (see Table 1). The importance of foreign borrowing in government finance is indicated by the fact

/that the external

that the external debt was 61 per cent of the total public debt in 1930 and that its service absorbed 34 per cent of the total federal government budget in 1931. The total volume of bonds issued between 1889 and 1934 was £343 million or £114 million more than the increase in debt, owing mainly to refunding issues to which resort was had in periods of financial difficulty.^{1/} The shrinkage since 1931 is largely the result of a series of adjustments negotiated with bondholders following the defaults of the 1930's. Despite the increase in dollar obligations during the twenties, sterling bonds constituted 56 per cent of the external debt in the hands of the public in 1931 and 66 per cent in 1947, as indicated in Table 2.

^{1/} Boucas, Valentin, "Aspectos da politica economica brasileiro", O Observador Economico e Financiero, (February 1946).

Table 1

External Public Debt of Brazil: Federal Government,
States and Municipalities; 1825-1946. ^{a/}

(In millions of pounds sterling)

<u>End of Year</u>	<u>Amount Outstanding</u>
1825	1.5
1831	5.1
1850	4.6
1860	5.6
1870	12.3
1880	12.5
1890	30.9
1900	45.6
1910	129.3
1915	162.9
1920	151.4
1925	184.0
1930	267.2
1931	277.0
1935	259.8
1940	242.3
1945	176.4
1948	143.1

^{a/} Sources: For 1825-1900, publication of Brazilian Ministry of Foreign Affairs, Brazil - 1943, (Rio de Janeiro: 1944). For subsequent years, Brazilian Ministry of Finance, Conselho Técnico de Economia e Finanças. The debt is converted in pounds sterling at the average exchange rates prevailing during each year specified. Loans from the United States Export-Import Bank are excluded.

/Before 1905 the

Before 1905 the external debt was almost entirely in the form of sterling bonds, of which small amounts were held by Portuguese, French, United States and other non-British nationals. Between 1905 and 1915 French franc bonds appeared. The great bulk of American lending and direct investment occurred in the period 1920-31, during which the external debt increased by about 80 per cent. Several sterling and franc loans were floated during the 1920's and one Netherlands loan in 1921, but these were largely for refunding, apart from a few small loans to states and municipalities. The last issue of foreign bonds was sold in 1931, ending over a century of continuous expansion of external indebtedness. During the 1930's additional governmental debts of an emergency nature were incurred when arrears of mercantile credits were funded in the form of medium-term loans.

The nominal purpose of a large part of the Brazilian governmental bond issues, other than refunding issues, was the financing of productive activities such as the electrification of railways and the establishment of port facilities, waterworks and other public utilities. A portion was devoted, however, to refunding floating debts arising from service due on previous loans or from recurring budgetary deficits. The foreign exchange proceeds of loans to finance budgetary deficits, of course, have served indirectly to finance domestic investment, and governmental economic policy been conducive to that end, but it appears probable that a portion of the loans was not so utilized.^{1/} It is notable that a large part of the borrowing during the period 1920-29 was by states and municipalities with little direction or coordination by the central government.

^{1/} See Brazil - 1943, pages 619-623, Ministry of Foreign Affairs, (Rio de Janeiro).

Brazil has experienced recurrent difficulties in servicing her external government obligations. The debt service was substantially maintained up to October 1931, however, though often through additional borrowing and refunding operations.^{1/} Following the cessation of lending by the United States and other factors leading to severe pressure on the Brazilian balance of payments during the world depression, a period of defaults and adjustments of the external debt began in 1931 which was terminated only by a major adjustment in 1943.^{2/}

Under the settlement of 1943, negotiated with representatives of the sterling and dollar bondholders, two options were offered, known as Plan A and Plan B.^{3/} In the case of dollar bonds coming under Plan A the nominal value of the outstanding bonds remained unchanged, interest rates between 5 and 8 per cent were scaled down to $1\frac{7}{8}$ to $3\frac{1}{2}$ per cent, and the maturity dates were extended an additional 22 to 84 years. Payments of interest and principal remained the responsibility of the original issues, states and municipalities as well as the Federal Government. Plan B provided for reductions of from 20 to 50 per cent of the nominal value of each issue, repayment in cash of from 7.5 to 15.0 per cent of that value as partial compensation for the loss incurred, and the issuance of new 23-year bonds carrying interest at $\frac{3}{4}$ per cent.

^{1/} No amortization was paid during the period 1830-1850, but there does not appear to have been any large-scale technical default on external public debt during the rest of the 19th century. In 1924 and 1925 two Brazilian states were unable to meet their interest payments promptly on loans issued two years earlier amounting to \$4.9 million, and by 1929 were in complete default.

^{2/} Almost full contractual service on the external debt was maintained until 1931, after which payments declined sharply to about 20 to 30 per cent of the amount due in most years until 1943, except for complete default in 1938 and 1939.

^{3/} At the time of the settlement a small portion of the debt with a nominal value of £ 7.2 million in sterling and \$2.0 million in dollars was retired against cash payments of 12 per cent of the face value.

The new securities became the direct obligation of the Brazilian government, which assumed responsibility for previous state and municipal obligations.^{1/} Roughly similar adjustments were offered to holders of sterling bonds. The Brazilian government announced that bondholders not voluntarily assenting to either option would be treated as coming under Plan A. In January 1950 an issue of Brazilian dollar bonds due in 1979 and bearing the adjusted interest rate of 3 3/8 per cent was quoted at a market price of 54 5/8, yielding 7.13 per cent.

The effect of the adjustment of 1943 was to reduce the nominal value of the external sterling and dollar bonds by 26 per cent, the proportion being slightly higher for dollar than for sterling bonds. Annual debt service, which was \$100 million in 1929 was reduced by the adjustment to \$32 million in 1943, about one-third of the original contractual service. Of the latter amount \$20 million represents sums due in sterling.

^{1/} The (United States) Foreign Bondholders Protective Council described the settlement as "the maximum which could have been secured" and recommended it to the favourable consideration of the bondholders. The United States Secretary of State characterized the proposal as a "manifestation of Brazil's earnest desire to meet its foreign obligations within the limit of its capacity". The settlement of 1943 ended over a decade of negotiations starting with the mission of Sir Otto Niemeyer in 1931. In 1933 when Brazil was on the verge of promulgating a debt settlement which was considered discriminatory against American bondholders, who happened to hold principally bonds selected for least favourable treatment, the United States Department of State requested reconsideration of the plan. (See Lewis, Cleona, The United States and Foreign Investment Problems, Washington, D.C., 1948, page 223).

Table 2

Composition of External Public Debt of Brazil
Selected Years, 1931-1948^{a/}

(In millions of currencies indicated)

End of year	Total (dollar and sterling equivalents) ^{b/}		Pounds sterling	Paper Dollars	Gold		Florins
	\$	£			Fr.	Fr.	
1931	1,021.5	277.0	157.4	363.1 ^{c/}	1,544		8.9
1938	1,194.1	243.7	156.2 ^{d/}	356.3 ^{c/}	519.6	229.2	6.4
1943	908.8	227.2	144.9	288.0	519.6	229.2	6.4
1944	760.0	190.0	119.5	239.9	519.6	229.2	6.4
1948	572.4	143.1	96.5 ^{e/}	184.8 ^{c/}	-	-	6.4 ^{f/}

a/ Source: Brazilian Ministry of Finance, Conselho Técnico de Economia e Finanças.

b/ Converted at exchange rates for the year specified and valuing gold franc bonds at their gold value.

c/ Of which United States nationals held practically all in 1931, \$120.0 million in 1939 and \$98.2 million at the end of 1947, according to the United States Department of Commerce.

d/ Of which £72.0 million was estimated by Sir Robert Kindersley (Economic Journal, 1939) as being held by United Kingdom nationals in 1938. Portuguese holdings of Brazilian bonds about 1934 were estimated at £30-35 million according to a report on Brazil by the United Kingdom Department of Overseas Trade, July 1932.

e/ Some of the outstanding sterling bonds are in Brazilian hands. For example, during 1948 the Government spent £4.4 million for the repurchase of outstanding sterling bonds in addition to normal amortization. See Annual Report of the Banco do Brasil for 1948, page 331.

f/ Liquidated for the franc equivalent of \$19.0 million pursuant to an agreement made in 1946 between the French and Brazilian Governments, as announced in the Diário Oficial, (Rio de Janeiro, 30 April 1946). Figure for 1931 includes gold franc debt in equivalent paper francs.

/A separate

A separate account of the experience of United States bondholders of Brazilian dollar bonds is of interest in view of the dominant role of dollar loans during the inter-war period. Between 1920 and 1931 thirty-one dollar loans were floated with a par value of \$394 million, although sales under par and underwriters' commission yielded the Brazilian government \$373 million.

Nominal interest rates on dollar bonds were mostly at 7 and 8 per cent, with maturities typically twenty to thirty years.^{1/} Interest paid up to the time of default in 1931 totalled \$167 million and principal repaid in cash was \$73 million. The market value of the outstanding bonds on 31 December 1935 was \$73 million, about 18 per cent of parity. On that date the combined value of interest received, principal repaid, and market value of outstanding bonds was thus less than the original investment of \$373 million by \$60 million. This calculation of loss has significance only for bondholders as a group and not for individuals. A considerable turnover in Brazil's dollar bonds took place throughout the period of default from 1931 to 1943.

In 1946 the Government negotiated a settlement with the French government and the French bondholders regarding the outstanding gold and paper franc bonds. The issues of franc

^{1/} Prewar interest rates on British and French securities were lower, averaging between 4 and 5 per cent with longer maturities, ranging up to 60 years.

bonds with nominal amounts of 229 million gold francs and 519 million paper francs were to be redeemed from the proceeds of Brazilian exports to France for an amount equivalent to about \$19 million.^{1/} The nominal value of the franc bonds outstanding in 1946, converted at current exchange rates for the franc, amounted to less than \$3 million, compared with the settlement price of \$19 million. However, the gold value of the gold franc loans outstanding in 1946 was \$75.2 million.

Negotiations have also been initiated to retire the small issue of government bonds denominated in Dutch florins.

To complete the record it is necessary to mention the loans received in recent years from the United States Export-Import Bank and the International Bank for Reconstruction and Development.

The position of the Export-Import Bank loans as of 28 February 1950 was as follows:

	<u>(Millions of dollars)</u>
Total authorized	287.5
Cancelled and expired	<u>111.6</u>
Net available for use	165.9
Not disbursed	<u>8.9</u>
Disbursed	157.0
Repaid	<u>64.2</u>
Outstanding	92.8

^{1/} Diario Oficial of the Government of Brazil, (30 April 1946).
The retirement was effected by the end of 1947.

Service due on these loans has been remitted on schedule. The annual payments due are currently about \$13 million.

From 1935 to 1940 credits were extended by the Export-Import Bank to United States exporters for short periods, carrying the guarantee of the Brazilian government and absolving the United States exporter of any liability in event of non-payment by the Brazilian agency purchasing the supplies. Beginning in 1940 the loans were mainly to the Brazilian government or agencies of the government, or in a few cases to private Brazilian corporations with a guarantee by the government. These loans were of longer maturity than the earlier exporter credits and were generally for specific development projects. The two largest loans were \$45 million in 1940 to the Companhia Siderurgia Nacional for equipment for the new Volta Redonda steel works and \$38 million to Lloyd Brasileiro in 1945 for the purchase of cargo steamers. Interest rates have been usually 4 per cent, with amortization payments commencing several years after the initial date and the rate of repayment increasing with the passage of time.^{1/} In the case of the loan for the Volta Redonda steel mill the bank received a first lien on the mill and the privilege of concurring in the selection of the managerial officers, the engineers, the

^{1/} Export-Import Bank loans for "economic development" authorized after July 1946 are to carry an "average effective rate" of 3 1/2 per cent "when guaranteed by foreign governments or their agencies". See United States National Advisory Council on International Monetary and Financial Problems, Third Semi-Annual Report, page 28.

contractors and in the purchase of materials.^{1/}

In addition to Export-Import Bank loans Brazil received United States government credits for the purchase of war surplus property totalling \$16.2 million. Lend-lease aid to Brazil during the war was valued at \$331.1 million. Of this amount \$23.7 million appears to have consisted of commodities not directly of military character.^{2/} According to an announcement by the United States Department of State, the Lend-lease obligations were settled in 1948 for \$35 million.

In January 1949 the International Bank for Reconstruction and Development granted a loan of \$75 million to the Canadian-controlled Brazilian Traction, Light and Power Company, Limited, subject to the guarantee of the Government of Brazil. The purpose of the loan is to assist in financing the expansion of hydro-electric power facilities and telephone installations. The total cost of the company's expansion programme over five years is estimated to be the equivalent of about \$194 million of which about \$120 million, almost entirely for local expenditures, is being financed with the company's own resources. The programme provides for increases of more than 50 per cent in the power-generating capacity in the Rio de Janeiro and Sao Paulo areas and is expected to increase the country's hydro-electric energy by

^{1/} See statement of Mr. Jesse Jones, Federal Loan Administrator, as reported in the New York Times, (27 September 1940).

^{2/} United States Department of Commerce Foreign Transactions of the United States Government, (31 December 1946, part 2, page

about 25 per cent. Local telephone service will be increased by about 40 per cent.

The loan is for a term of twenty-five years and carries an interest rate of 3 1/2 per cent plus the International Bank's usual commission of 1 per cent. Amortization will begin in 1953. Payment of interest and repayment of principal is guaranteed by the government of Brazil. The International Bank received bonds from the company secured by the pledge of debentures of the company's principal operating subsidiaries and by a floating charge on the assets of the company. The Bank is authorized to sell the bonds to private investors.

To summarize, Brazil's external governmental debt at the end of 1948, including Export-Import Bank, and International Bank obligations, had a nominal value of about \$750 million and an annual service charge of about \$47 million.^{1/} It may be added that in the course of 1949 Brazil purchased \$US 37.5 million from the International Monetary Fund, an amount equal to the portion of Brazil's subscription to the Fund paid in gold.

^{1/} This excludes a loan of \$80 million from the Federal Reserve Bank of New York against full gold collateral.

B. Direct investments^{1/}

Until the late 1920's direct foreign investments in Brazil were predominantly of British origin. The period after the first world war saw a rapid growth of United States direct investments which, coupled with the liquidation of some British interests during the last war and the post-war resumption of American investments on a limited scale, has placed United States direct investments in the dominant position. The industrial distribution of British and United States direct investments in Brazil has tended to be complementary. United States investments have been largely in public utilities, manufacturing and trade, while British investments have been concentrated in railways and the production of raw materials.

Although the statistics of direct investments are lacking in precision, the order of magnitude of such investments is fairly definitely established. A census of foreign assets held by United

^{1/} Direct investments are defined as investments in business enterprises abroad in which the investor has a controlling interest. Direct investments may be in the form of subsidiaries incorporated abroad, branches and partnerships. For statistical purposes the United States Treasury Department defines a controlling interest as one involving ownership by one person or by an affiliated group of persons of 25 per cent or more of the voting stock of corporations and analogous interests in partnerships and other organizations. Except for United States investments the available statistics of foreign investments in Brazil do not distinguish sharply between direct investments and portfolio investments other than external government debt. However, apart from British minority interests, portfolio investments in Brazil other than in government bonds are very small.

Table 3

United States direct investments in Brazil, 1929-48^{a/}
(In millions of dollars)

Industry	1929	1940	1943	1948	Inflow 1945-1948 inclusive
Public Utilities					
Rail and transportation	96.9	112.5	87.8	...	9
Manufacturing	45.7	69.5	66.4	...	26
Petroleum and mining	23.0	30.7	30.2	...	38
Trade	15.8	17.9	29.2	...	13
Agriculture	x	x	10.1	...	1
Finance	x	x	3.5	...	11
Mining and smelting	x	x	2.5	...	11
Other	12.2	19.5	6.6	...	11
Total	193.6	240.1	236.1	380	96

^{a/} Sources: For 1929 and 1940, United States Department of Commerce, American Direct Investments in Foreign Countries; for 1943, United States Treasury, Census of American-Owned Assets in Foreign Countries (1947); for other years, United States Department of Commerce, Survey of Current Business (November 1949). Data for capital inflow include reinvested earnings of branch enterprises but not of subsidiaries. The figure for total investments in 1948 is an estimate obtained by adding the estimates of capital inflow during 1944-1948 inclusive to the estimate of total investments at the end of 1943.

States residents in 1943 revealed that United States direct investments in Brazil in that year amounted to \$236 million. On the basis of data relating to the inflow of capital after 1943 the value of United States direct investments at the end of 1948 may be estimated at approximately \$380 million.^{1/} In 1943 United States direct investments were in the form of holdings of 157 corporations and 57 individuals in a total of 332 enterprises, with the industrial distribution shown in table 4. Sixty-three per cent of these enterprises were in the form of subsidiary corporations incorporated under the laws of Brazil, while 35 per cent were branch plants of American corporations.

Although the bulk of United States direct investments entered Brazil after the first world war United States interests were represented as early as 1890. Around the turn of the century several large United States firms opened branches to provide service and repair of equipment used in transport and public utilities. After the first world war a large number of branch plants were set up to assemble or manufacture various well-known articles of United States origin.

In recent years, partly under the stimulus of Brazilian national

^{1/} This estimate includes the reinvested earnings of branches but excludes the reinvested earnings of subsidiaries during 1943-1948 and is therefore an underestimate. The reinvested earnings of subsidiaries in Brazil in 1946 and 1947 inclusive were \$17 million as reported by the United States Department of Commerce, Balance of Payments of the United States, 1946-48 (Washington, 1950).

economic policies, there has been some shift away from United States branch plants toward partnership in Brazilian-controlled concerns for the manufacture of products under Brazilian trade names. Among instances of such joint economic ventures is one in which a United States manufacturer contributed used machinery and technical assistance in return for a 40 per cent interest in a Brazilian rayon concern. In another instance, an American tire-manufacturing firm agreed to supply technical direction for a Brazilian-owned plant in exchange for a portion of the profits. An example of the effect of special legislation is the transfer in 1948 of majority ownership (52 per cent) of Panair do Brasil, a former United States-controlled air-transport concern, to Brazilian nationals following the passage of a law reserving air service between points within Brazil to Brazilian aircraft. Reference may be made also to the Brazilian subsidiary of the International Basic Economy Corporation, a private enterprise organized in the United States in 1947 with a capital of \$7 million. The subsidiary, with initial capital of \$3 million, has been organized to undertake a variety of activities for the improvement of food production and distribution. It is the announced policy of the parent corporation to invite participation in the subsidiary by Brazilian capital and ultimately to transfer majority ownership to such capital.

The "inflow" of United States capital into direct investments in Brazil since the end of the war increased from \$23 million in 1946 to \$72 million in 1947 and then dropped sharply to \$25 million

/in 1948.

in 1948.^{1/} Close to 40 per cent of this amount was invested in petroleum distribution facilities and about 25 per cent in manufacturing. It should be emphasized that the estimates include a substantial amount of reinvested earnings of branch plants and unremitted dividends of subsidiaries, although not "normal" reinvested earnings of subsidiaries. The reinvested earnings of branch plants and the unremitted dividends of subsidiaries were approximately 75 per cent of the inflow of "fresh" capital in 1947 and slightly more in 1948.^{2/}

British direct investments began during the railway boom of the 1850's, and railways continue to be the largest single category of British investments.^{3/} British investments in port facilities, trolley lines, and other public utilities were also prominent. A survey of British investments in 1939 revealed interests in thirteen railways, the major electric utilities of the country, port facilities, five mining companies and a number of manufacturing concerns. Some of

^{1/} United States Department of Commerce, Survey of Current Business, (November 1949), page 23.

^{2/} This estimate is based on a comparison of exchange control data published by the Banco do Brasil, which excludes reinvested earnings, with the estimates by the United States Department of Commerce of the "inflow", including reinvested earnings.

^{3/} According to the South American Journal, 13 March 1948, page 140, 68 per cent of British investments other than government bonds were in railroads in 1931 and about 60 per cent in 1947. These estimates are believed to include portfolio as well as direct investments. It has been estimated that railway investments accounted for over one-half of all British investments in Latin America, including government securities. (See article by Sir Robert Kindersley, Economic Journal, London, 1933, page 202.)

/these investments

these investments, however, did not involve controlling interests in the enterprises concerned and were thus of the "portfolio" type.

According to estimates appearing in the South American Journal (London), the nominal value of investments in Brazil represented by securities quoted on the London Stock Exchange (other than sterling bonds) declined from £103.6 million at the end of 1938 to £86.6 million at the end of 1948. It is doubtful, however, whether the latter figure allows sufficiently for the disinvestment of British holdings in Brazil which has occurred in recent years. Furthermore, it includes some portfolio as well as direct investments and represents some holdings by investors of other than British nationality. Since the end of the war, the rate of repatriation of British investments in Brazil has increased, financed by the liquidation of sterling balances accumulated mainly during the war and estimated at £61.6 million in March 1947. Pursuant to an agreement with the British Government in May 1948, Brazil was authorized to liquidate accumulated sterling balances for the purchase of imports from the United Kingdom at the rate of £10 million during the following four years and to use the remainder to purchase outstanding sterling bonds and direct investments. During 1948 payment of £9.6 million was made for the purchase of the Sao Paulo Railway Company Limited and the Brazil Railway Company, and £4.4 million was utilized for the purchase of sterling bonds.

If allowance is made for these developments, the nominal value of British direct investments in Brazil at the end of 1949 may be

/estimated

estimated at perhaps £50 to £60 million.^{1/}

Canadian direct investments in Brazil are almost entirely in public utilities, particularly in the Brazilian Traction, Light and Power Company, Limited., the largest utility concern in Brazil. The book value of this enterprise was \$420 million in 1946, of which the Canadian share represented 40 per cent or \$170 million. Other Canadian direct investments, including substantial banking interests, bring the total to about \$200 million.

French, Belgian, German and Portuguese investments have been important in Brazil, particularly before 1914. French capital was prominent in railways, port facilities, electric utilities, banking and finance, and agriculture. One estimate places the total value of such investments in 1913 at the equivalent of 2,620 million francs (\$503 million at the 1913 rate of exchange), including 1,390 million francs (\$267 million at the 1913 rate) in railways.^{2/} The French investments are estimated to have shrunk to the equivalent of 1,000 million francs by 1938 (\$40 million at the 1937 rate of

^{1/} According to information supplied by the Banco do Brasil, the value of British capital registered with the Brazilian exchange control authorities at the end of 1948 was £42 million. This figure is not directly comparable with the estimate given in the text, however.

^{2/} J. F. Rippey, "French Investments in Latin America", Inter-American Economic Affairs (Autumn 1948). The author states that "it is likely that most of the French capital invested in Latin America yielded scant returns after 1920 and especially after 1929," and cites three investments in Brazil to illustrate this statement: the Brazilian Railway Company, port facilities in Para, and port facilities in Bahia.

exchange).^{1/}

German investments, estimated to have been about \$40 million in 1938^{2/}, were sequestered during the war and have been transferred to Brazilian ownership. Portuguese investments other than in government bonds were estimated by one source at \$75 million in the early 1930's^{3/} but are now negligible, according to figures of Portuguese capital registered with the Bank of Brazil.

II. ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

A. Industrial Distribution

Transportation, communications and other public utilities have absorbed the major part of foreign investments in Brazil. This is all the more true if consideration is given to the large portion of the external public debt which has been incurred for the financing of public utilities and railway development. On the other hand, foreign capital has been invested at one time or another in every major sector of the Brazilian economy, not least in manufacturing and distribution.

^{1/} See Cleona Lewis, The United States and Foreign Investment Problems (Washington, 1948).

^{2/} See Cleona Lewis, op.cit. The estimate is based on the 1938 rate of exchange.

^{3/} United Kingdom Department of Overseas Trade, Brazil, (London, July 1932).

Public utilities and transportation

The Brazilian Traction, Light and Power Company Limited, is the largest public utility enterprise in the country, supplying over 60 per cent of the total power produced and about 75 per cent of the telephones in service. Its operations also include street railways and gas and water services. Ownership is predominantly Canadian (40 per cent) with significant British and American participation. American and Foreign Power Company (United States) supplies about 30 per cent of the electrical energy produced as well as telephone service. International Telephone and Telegraph Corporation (United States) supplies about 10 per cent of the telephone service. Thus foreign investments presently account for about all the electricity generated and all the telephone services.

Foreign capital, almost entirely British, controls thirteen railway companies, which account for about 24 per cent of the total mileage. The recent sale to the Brazilian government of two British-owned railways has been referred to. The railways concerned are small, the larger being only 153 miles in length, but it has been reported that discussions have been initiated regarding the purchase of the two largest British-owned railways with about 3,000 miles of lines. French and Belgian investments in the railways were important before the first world war but are now

/negligible.

negligible.^{1/} It may be observed that the Brazilian government from the start has owned and operated some railways, and the trend toward nationalization of this sector of the economy is likely to continue.

In air transport, German and United States capital have played a significant part in the past, although the amount invested has been small. The German-owned Condor Company, a subsidiary of Lufthansa, was sequestered in 1942. As noted previously, United States capital invested in Panair do Brasil has been required by a law affecting all aviation operations to divest itself of majority ownership and now retains a 48 per cent interest in the company. Foreign capital is thus no longer a controlling factor in air transport.

Manufacturing

An official Brazilian source indicates that investments in manufacturing by "non-resident" foreign nationals and enterprises constituted about 7 per cent of the total in 1941, while "resident"

^{1/} See J. F. Rippey, "French Investments in Latin America", Inter-American Economic Affairs (Washington, Autumn 1948), who cites figures in A. P. Winston, "Does Trade Follow the Dollar?", American Economic Review, XVII (1927). Winston states that French and Belgian interests represented about 36 per cent of total Brazilian railway mileage in 1913 and French interests alone controlled another 10 per cent. These figures appear high, but no independent check on their accuracy is available.

foreign enterprises represented about 11 per cent.^{1/} A somewhat higher proportion is indicated by an estimate of the United States Tariff Commission, according to which foreign capital, before the war, represented 30 per cent of total investment in manufacturing in the State of Sao Paulo, which accounted for about two-fifths of Brazil's industrial production.^{2/}

The number of manufacturing establishments and the value of industrial production has undergone a rapid increase in Brazil in recent years. Since foreign capital has played a smaller role in this expansion than previously, it may be assumed that the proportion of foreign capital in manufacturing has declined. The sequestration of German investments and the repatriation of British-owned investments have accelerated this trend. Another factor operating in the same direction is the establishment of government manufacturing projects during the war, particularly the Volta Redonda Steel Works and the National Airplane Motor Factory.

1/ See Relatorio do Service de Estatistico e Providencia do Trabalho, (1944), pages 82-83, as cited by Conselho Inter-Americana de Comercio e Producao, Inquerito Continental Sobre Fomento e Cordinacao de Industrias, (Montevideo, 1946) page 61. This document is a reply to a questionnaire on economic development in Brazil prepared under the direction of Roberto C. Simonsen, President of the Federation of Manufacturers, State of Sao Paulo.

2/ United States Tariff Commission, Mining and Manufacturing Industries in Brazil, (Washington, 1945). Presumably the proportion of foreign-owned capital in Sao Paulo was higher than the average for the rest of the country, as that state is the leading industrial area.

United States enterprises predominate among foreign investments in manufacturing. Leading American producers in many major branches of manufacturing are represented, including meat packing, the assembly of automobiles and the production of automobile tires, chemicals, pharmaceuticals, electric supplies and radios. American concerns have also participated jointly with Brazilian interests in the manufacture of rayon, rubber goods and electric light bulbs.^{1/} Foreign personnel employed in these operations is small, except in managerial and technical positions.

The products of British manufacturing interests, which are a small portion of British investments, include tobacco, matches, paper, soap, cement, aluminum, chemicals and plastics, refined sugar, flour, woollen goods, shoes and industrial machinery.

French and Belgian investors formerly controlled Belgo-Mineira, the largest private iron and steel mill, representing 59 per cent of the total privately-owned production. Brazilian interests have recently acquired 52 per cent of the voting stock of this enterprise.

The recent establishment of the government-owned Volta Redonda mill will reduce greatly the proportion of foreign-owned production in iron and steel, perhaps to less than 15 per cent. French interests also own the largest tannery in Sao Paulo, the largest printing-ink

^{1/} A somewhat different type of joint enterprise is illustrated by the conclusion of a long-term licensing agreement in 1949 between Western Electric International Company, a United States concern, and Eletromar, a Brazilian-owned enterprise. The Westinghouse Company will provide patents and technical assistance in the construction and operation of plants in Brazil and will train Brazilian personnel in the United States. No capital investment by the United States enterprise is involved, however. /concern

concern in Brazil, a large linen mill, and important chemical, rayon, perfumery and pharmaceutical interests.

Much of the German manufacturing capital was scattered in small amounts, but the more important products included chemicals, beer and pencils.

Several other foreign countries are still represented in manufacturing. Swiss nationals own a large tannery and a condensed milk factory. Argentine capital is placed in flour and cotton-seed oil mills, cotton gins and compressors, a cement plant, a chocolate factory and a variety of smaller enterprises. Netherlands interests own a vegetable oil plant erected in 1935. An anhydrous alcohol distillery is reported to be owned by Czechoslovak interests. Canada is represented by a large cement plant. Before the war Italy was represented by the Pirelli Company, producing cables, tires and other rubber goods.

Trade

United States, British, French and German interests have been prominent in the wholesale and retail trade. To the United States investments in trade valued at \$30 million in 1943 there should be added a portion of United States investments in petroleum (a total of \$36 million in 1943) which represent mainly distribution operations. The recorded inflow of United States capital for direct investment in the petroleum industry during 1945-1947 inclusive was \$38 million, greater than in any other category; a large part of this represented investments in petroleum distribution facilities.

/Two large

Two large retail establishments have recently been opened in Brazil by Sears, Roebuck, and Company, a United States enterprise. Owing to import restrictions, much of their merchandise is presently being manufactured locally. The distribution of many leading American manufactured products, particularly durable consumer goods and machinery, is handled largely through selling branches or subsidiaries of manufacturing concerns in the United States. British interests control two of the main mercantile establishments in the country, Anglo-Brazilian Stores, Limited, and Mappins'. German interests were extensive before the war, particularly in the form of sales representatives of leading German manufacturers of chemicals, drugs, optical and other precision instruments.

In general, however, it appears that foreign investments have played a decreasing part in trade in recent years. The total investment other than in inventories is relatively small, representing mainly the premises of the retail or wholesale establishment. There has been a tendency in Brazil to regard foreign investments in distribution somewhat critically, in view of the large profits which have been earned in recent years, with corresponding remittances abroad.

Agriculture and extractive industries

Foreign investments in agriculture and extractive industries are relatively small. Foreign banks and other lending institutions have played an important part, however, in financing agricultural production by native Brazilian interests.

British interests appear to have been the most important in this sector of the economy. Among the principal British concerns in agriculture is the Cambuhy Coffee and Cotton Estates, Limited, which owns about 135,000 acres.

The British-owned Brazil Land, Cattle and Packing Company held several million acres but these were sold to the Brazilian government in 1940. In 1943-1944, a large agriculture project, Paraná Plantations, Limited, involving resettlement of agricultural labour, was taken over by a group of Brazilians with the financial assistance of the government. British interests connected with agriculture include flour milling and the financing of coffee and cotton growing. During the era of natural rubber exports from Brazil British holdings in rubber estates were important.

Apart from some livestock raising, United States interests in agriculture proper have become negligible, following the sale to the Brazilian Government in 1946 by the Ford Motor Company for the cruzeiro equivalent of \$250,000 of rubber plantations in Para valued at \$10 million in 1943. United States subsidiaries operated in coffee and cotton growing to a limited extent and in processing and packing agricultural products and as middlemen. Reference has been made above to the International Basic Economy Corporation, the activities of which include storage and transportation facilities for agricultural and fisheries products,

German-owned ranches were numerous before the war but these were operated primarily by German residents, not by absentee owners.

/German

German interests were also active in financing local planters of coffee and cotton.

Mining has attracted primarily British and French capital to Brazil, especially during the nineteenth century. The rise and decline of British mining investments are shown in the following tabulation.^{1/}

<u>Year</u>	<u>Number of enterprises</u>	<u>Capital paid up</u>
1890	6	E 770,000
1900	11	1,510,000
1911	18	3,120,000
1913	16	2,510,000
1929	10	3,620,000
1945	3	850,000

United States investments in mining have never been large, amounting to only \$2.5 million in 1943. Recently, however, the United States Steel Corporation has been reported to be studying the possibility of obtaining up to 40 per cent of its annual manganese requirements from Brazil.^{2/}

Banking

The importance of foreign banks has declined sharply in recent years. The number of foreign-owned banks and their branches dropped from 79 to 41 between 1938 and 1943, the latter figure representing ten head offices. In the same period the number of domestic banks

^{1/} J. F. Rippey, "The British Investment 'Boom' of the 1880's in Latin-American Mines," Inter-American Economic Affairs, (Washington, March 1948).

^{2/} See New York Times, (17 November 1948).

and branches rose from 864 to 2,740.^{1/} The reduced importance of foreign banks is reflected in the decrease of the proportion of deposits represented by them from about 80 to 45 per cent between 1938 and 1948. Both the rapid growth of domestic banking facilities and the liquidation of German, Italian and Japanese banks contributed to this result.

The major foreign banks at present are American (National City Bank of New York and First National Bank of Boston), British (Bank of London and South America), Portuguese (Banco Nacional Ultramarino), Canadian (Royal Bank of Canada), and Dutch (Banco Holandes Unido). Before the first world war French banking investments were large but have become negligible.^{2/} American capital invested in banking in 1943 was \$3.5 million. Since then the First National Bank of Boston has been authorized to operate, on condition that it bring in 100 million cruzeiros, the equivalent of \$5.4 million at the current buying rate. British capital in banking was estimated at £6.3 million (\$25.2 million) in 1939.^{3/}

1/ Data from "Bancos Estrangeiros do Brasil", Conjuntura Economica (Rio de Janeiro, March 1949), pages 23-26.

2/ J. F. Rippey, "French Investments in Latin America" Inter-American Economic Affairs (Autumn 1948). French investments in Latin American banks are given as 11 million francs in 1902 and 900 million in 1913.

3/ J. F. Rippey, "British Investments in Latin America, 1939", Journal of Political Economy (February 1948). The figures are based on aggregate paid-up capital stock, excluding reserves, and hence are minimum estimates.

Foreign banks have been subject to a measure of opposition and restriction in Brazil for some years. The principal objection has been that foreign banking, like foreign investments in trade, does not involve substantial capital imports but operates largely with Brazilian capital and remittance of profits abroad. The Constitutions of 1934 and 1937 (Article 117) in fact envisaged the progressive elimination of foreign banking and in April 1941 a law was enacted providing for the liquidation of all foreign banks within five years. However, this law was in effect superseded by the Constitution of 1946 which does not provide for any "naturalization" of banking institutions. Since 1946 both the National City Bank of New York and the First National Bank of Boston have established branches in Brazil, and the operations of several European-owned banks have expanded.

B. Foreign investments and economic development

The information available does not afford an adequate basis for appraising in quantitative terms the contribution of foreign investments to the volume of capital in Brazil. The indications are, however, that while from the middle of the nineteenth century, when the foundations of modern Brazil began to be laid, the amount of foreign capital invested increased in absolute terms at least up to the end of the 1920's, the relative importance and economic significance of such capital for the economic development of Brazil tended gradually to decline. This is due to the passage of the Brazilian economy through three successive phases which overlapped

/and thus cannot

and thus cannot be clearly separated from each other, but which imply a shift to economic activities in which there was an increasing dependence on domestic capital.

There can be no doubt that foreign capital played a very substantial part in the development of railways, port facilities and public utilities and the establishment of commercial and financial links with the outside world which characterized the period from about 1850 to the establishment of the Republic in 1889. In fact, it is this kind of activity which has absorbed the major part of the foreign capital entering into Brazil either as equity investment or in the form of governmental loans. Foreign investment has thus been very important in preparing the way for an increase in domestic production.

The establishment of the Republic in 1889 initiated a period of rapid economic growth in which foreign investments were important, though partly in the form of a reinvestment of earnings by foreign enterprises.^{1/} Once the transportation network and other facilities aiding the export of raw materials and agricultural products had been established, however, Brazil's resources were absorbed to an increasing extent in the production of primary goods. Had Brazil been an important source of minerals for export, foreign investments might have played a greater part in the country's history, since

^{1/} See George Wythe, Industry in Latin America, (New York, 1945,) page 138.

mineral production (including petroleum) has been a favourite object for foreign investments in Latin America. The development of the economy has been characterized rather by a sequence of agricultural export crops - sugar, cacao, rubber, coffee and cotton.^{1/} Foreign investments were made in plantations, but the amount of capital involved was relatively small, and the capital was frequently brought in by immigrants, not constituting foreign investment in the usual sense. It was in the ancillary facilities developed for financing, transporting, processing and selling these staple crops that foreign investment continued to find more significant outlets. Thus, the railway network was designed with a view to moving the crops to seaports.

The third stage of economic development in Brazil is characterized by the growth of the manufacturing industry working in large part for domestic consumption. This industry began to grow in the late part of the nineteenth century, expanded particularly during the two world wars and is estimated to have contributed as much as 17 per cent to the national income in 1940.^{2/} The extent to which foreign capital has been engaged in this development has varied. The rapid expansion during the two world wars depended, however,

^{1/} Recently exports have become more diversified, including rice, fresh fruits, meats, vegetable oils, lumber, mica, manganese and iron ore.

^{2/} See L.M. Dominguez, "National Income Estimates of Latin American Countries," Studies in Income and Wealth (Vol. 10), (New York, 1947). The figure has probably increased somewhat since 1940.

largely on domestic financing while foreign capital was more active in the early years of the Republic and during the prosperous periods 1906-1912 and 1926-1930. Some non-transferable earnings of foreign capital during the depression of the 1930's undoubtedly found their way into the manufacturing industry. On the whole, however, the role of foreign direct investments in manufacturing has been limited. It will be recalled, however, that government projects such as the Volta Redonda steel mill have recently absorbed considerable amounts of non-private foreign capital.

While these rather vague conclusions indicate that a declining proportion of the capital invested in Brazil is foreign, the role of such capital even in recent decades should not be belittled. In particular, in manufacturing, in which this capital appears to represent only a small percentage of the total amount invested, it is likely to be active in relatively new types of processing and involve the transmission of technical knowledge and the training of personnel the ultimate importance of which is difficult to gauge and is not necessarily closely related to the amount of the foreign capital involved.

C. Foreign investments and the balance of payments

During the last few decades of the nineteenth century and throughout most of the present century Brazil has had a surplus of exports over imports, even when foreign capital was flowing in at a substantial rate. Thus there appear to have been large payments abroad on account of invisible items in the balance of payments, an

/indication

indication that the yields of foreign capital were large, particularly in the early part of the period.

In an average year during the 1920's Brazil financed her large net payments due abroad on account of debt service, yields of direct investment and other invisibles only partly by a favourable balance on trade account. More than half of the net balance on account of invisibles was met by other sources, primarily through government borrowing and the inflow of direct investments. Accurate data on the magnitude of this capital inflow during the period 1920-31 are not available but it would appear to have averaged about \$65 to \$75 million annually.^{1/}

The balance of payments position was rendered precarious both by the relatively large requirements for debt service and by the reliance on coffee exports, which accounted for almost two-thirds of the total value of exports during the 1920's and three-fourths in 1929. With the decline in coffee prices and the reduction of capital imports in the early 1930's there followed the loss of the country's gold

^{1/} Net receipts from the sale of dollar bonds during 1920-31 were \$373 million. Direct investments by the United States were valued at \$194 millions in 1929, a large part of which represented the inflow of capital during the period 1919-31. All other foreign investments may have accounted for \$250-\$300 millions. An independent estimate (J. F. Normano, Brazil, 1935, page 215) gives the "yearly increase in foreign capital" for 1916-30 as \$68 million of which \$36 million is attributed to the United States. A Brazilian source estimated the average annual increase during 1908-14 at \$131 million. See J. P. Calogeras, Relatorio do Ministerio da Fazenda 1915, (Rio de Janeiro, 1915), cited by Normano, op. cit., page 215.

reserves, currency depreciation and the imposition of severe exchange controls, including the virtual prohibition of transfers of yields of foreign investments.

During the last war Brazil enjoyed a favourable trade balance sufficient not only to meet the deficit on account of invisible items but also to permit accumulation of a substantial reserve of gold and foreign exchange, resulting in a relaxation of exchange controls and then their virtual abolition by 1946.^{1/} This development was facilitated by the debt adjustment of 1943 which reduced the normal service on the total external public debt to about one-third of its 1929 level. The service charge under the original contracts would have been about \$75 million annually in the immediate post-war years, as compared with \$32 million after the debt adjustment.

In 1947 the situation changed as the expansion of imports and the accumulation of inconvertible currencies in exchange for exports to Europe drained the country's reserves of convertible exchange. The introduction of severe exchange controls followed in June 1947.

Although contractual service on the external debt was maintained, a substantial reduction occurred in the transfer of yields of direct

^{1/} Total gold and foreign exchange holdings rose from \$67 million in 1939 to \$787 million at the end of 1943, and declined to \$697 million at the end of August 1949. (United Nations Monthly Bulletin of Statistics, March 1950). Of the \$757 million, \$354 million was in the form of gold held by the Treasury. Of the remaining \$403 million, over half, it is reported, was in blocked sterling and a substantial part of the remainder must have been inconvertible European currency accumulated under various payments and credits agreements.

investments. Toward the end of the year it was reported that no convertible currency was being allocated for the remittance of income or capital of direct investments.^{1/}

In 1948, however, an effective control on imports was established and the position with respect to remittances on account of foreign investments was considerably eased. The amount transferred abroad on account of income of direct investments is reported to have risen from 400 million cruzeiros (\$22 million) in 1947 to 705 million cruzeiros (\$38 million) in 1948.^{2/} According to a preliminary estimate such transfers during the first nine months of 1949 were at the annual rate of 768 million cruzeiros (\$41 million).^{3/}

These data relate only to sums actually transferred through the foreign exchanges and exclude reinvested earnings of both foreign branches and subsidiaries. The reinvested earnings of branches and the untransferred dividends of subsidiaries are estimated to have been 300 million cruzeiros (\$16 million) in 1947 and 740 million cruzeiros (\$40 million) in 1948.^{4/}

^{1/} Bank of Manhattan Company, Foreign Notes, (New York, January 1948).

^{2/} Data from Banco do Brasil as reported in Conjuntura Economica (Rio de Janeiro, July 1949), pages 30-36.

^{3/} Conjuntura Economica (February 1950), page 12.

^{4/} The estimate for 1947 is made by the International Monetary Fund. See Balance of Payments Yearbook, 1938, 1946, 1947 (Washington, 1949), page 89. The estimate for 1948 is made on the assumption that the relationship between the remitted and unremitted profits was approximately the same as in 1947.

Estimates of the reinvested earnings of **subsidiaries** are not available for 1947 and 1948, but in 1945 and 1946 they were \$9.1 and \$17.9 million, about 45 and 55 per cent of total earnings of such enterprises.^{1/}

An illustration of the recent position of foreign enterprises in Brazil with respect to remittances abroad is afforded by the subsidiaries of the American and Foreign Power Company, a United States enterprise.^{2/} The company reported that on 30 September 1949 it had not yet received dollar exchange for \$2.5 million of the \$5.8 million earned by its Brazilian subsidiaries during the previous twelve months. It may be noted that the company reported an increase of 23 per cent in net operating revenues over the previous twelve months' period. Income of the parent company after all taxes was 3.4 per cent of total assets. At the end of September 1949 the subsidiaries had "approved" applications for a total of \$4.9 million of interest, dividends, and service fees awaiting remittance to the United States. Approval involves a determination by the exchange control authorities of the rate of exchange at which remittances will be made, thus providing protection against possible fluctuations in the exchange rate. In September 1949 the company expressed the

^{1/} United States Department of Commerce, The Balance of International Payments 1946-1948 (Washington, 1950), page 262. The figures excluded dividends of subsidiaries unremitted because of transfer difficulties.

^{2/} See American and Foreign Power Company, Incorporated, Financial Report (New York, 30 September 1949).

expectation that because of the more severe control of imports and the rise in the price of coffee exports, the delays encountered in effecting remittances would be reduced or eliminated within a short time.

Future trends in the volume and composition of Brazil's external trade will largely determine her ability to attract new investments and to transfer earnings on both old and new investments. In connection with its loan to Brazil in 1949 the International Bank for Reconstruction and Development expressed the view that the favourable prices currently received for Brazilian exports are likely to continue for at least the next few years.^{1/} The International Bank also expressed the view that in the long run further development of agricultural and mineral resources, as well as growing manufacturing industries, should improve earnings both

^{1/} International Bank for Reconstruction and Development, Press Release No. 126, 27 January 1949.

The rise in the value of Brazilian exports from the equivalent of \$319 million on the average in 1937-41 to \$1,016 million in 1947 was due largely to price increases. In 1947 the price of coffee was almost three times as high and of cocoa between six and seven times as high as the 1937-41 average. The price of raw cotton almost tripled over the same period, and in this case the volume exported also increased substantially. Brazil's terms of trade have improved since the outbreak of the war, but are not so favourable as in 1929.

Brazil's balance on merchandise account shifted from a deficit of 1.0 billion cruzeiros in 1947 to a surplus of 2.4 billion cruzeiros (\$130 million) in 1948. The recent further increase in the price of coffee will further increase the country's foreign exchange earnings, particularly of dollars.

through increased exports and through reduced imports of certain essential commodities (including coal, steel, oil, wheat and some manufactured goods) which now require substantial expenditures of foreign exchange. While these tendencies will ease the pressure on the balance of international payments, the inconvertibility of the currencies of European countries, which normally take about 50 per cent of Brazil's exports, will remain an obstacle. Expansion of Brazilian exports to the United States, with the possible exception of manganese ore, appears unlikely to contribute much to a solution in the near future.

According to incomplete data for the pre-war years, the service of the external debt (including amortization) and the yields of other foreign investments amounted to about 35 per cent of the value of exports in 1929 and in 1934-1936. In 1947 and 1948 comparable figures indicate that debt service and earnings on direct foreign investments represented 7 and 11 per cent of exports respectively. If the comparison is restricted to amounts actually transferred on account of foreign investments, excluding reinvested earnings of all types, the transfers in the two years mentioned were 4 and 6 per cent of the value of exports. These figures indicate that the amount of Brazil's current foreign exchange earnings required for the transfer of income of additional foreign investments might not be excessively burdensome, within limits. For example, the annual service charges of a loan of \$100 million - assuming an interest rate of 4 1/2 per cent and a maturity of twenty-five years - would be less than 1 per cent of the value

cent of the value of exports in 1948, although somewhat over 2 per cent of the value of exports to the United States in that year. About the same additional burden would arise from additional direct investment of \$100 million with an average transferred yield of about 9 per cent.

D. Exchange control

As already indicated, the transfer of income and capital of foreign investments in Brazil has been subject since September 1931 to exchange control, the form and severity of which has varied with the shifting balance of payments position. This control has been exercised through the establishment of priorities for various categories of foreign exchange requirements, maximum limits on remittances and differential rates of exchange. In 1937 the following order of priorities for the allocation of foreign exchange was established:

1. Government requirements
2. Merchandise imports
3. Export freight charges
4. Requirements for public utilities
5. Dividends and profits
6. Other exchange obligations

Early in 1946 the exchange control regulations were modified with a view to attracting private foreign capital.^{1/} The objective of the change was to offer assurance to investors that remittances up to a specified maximum amount would be permitted. Actual remittances have

^{1/} The changes were embodied in Decree Law No. 9025 of 27 February 1946 and subsequent regulations.

frequently fallen short of the prescribed ceiling, however, owing to the establishment of a higher priority for other payments, particularly essential imports and the service of the government debt.

Under the regulations introduced in 1946 remittances abroad may be made only on invested capital which is registered with the authorities. A maximum of 8 per cent of the registered capital may be transferred each year as interest, dividends, or profits; capital repatriation is limited to 20 per cent of the value of the investment annually. The yield transferred may exceed 8 per cent per annum, but the withdrawal of capital permitted is then reduced by an equivalent amount. Thus, in effect, 28 per cent of the original capital invested may be remitted annually over five years, provided exchange is available. Registered investments are expressed in the currency of the country of origin and are defined to include reinvested earnings. The former arrangement provides some protection against the effects of possible devaluation of the Brazilian currency, since the maximum remittances permitted are expressed in the currency of the country of origin of the investment.

With the development of adverse pressure on the balance of payments in 1947 the amounts actually transferable were restricted further by regulations introduced in June of that year, according to which all remittances became subject to a new system of priorities.^{1/} Under this arrangement, which remains in effect, first priority is

^{1/} See Directive No. 25 and 27 of the Banco do Brasil, 4 June 1947.
/given

given to imports of "essential articles" and to foreign exchange required to meet governmental obligations, including the service on the external debt. In the second category are yields on registered capital up to the 8 per cent limit, freight payments, royalties, etc., and transfers of capital up to the 20 per cent limit authorized. Transfers of interest, profits, dividends and capital above these limits are in the fifth category. It is reported that toward the end of 1948 the authorities were allocating 10 per cent of current foreign exchange receipts to second category requirements, an arrangement which appears to have permitted a large part of the transfer of current yields desired by foreign investors. This situation resulted largely from the tightening of controls on "non-essential" imports.^{1/}

From 1931 to 1946 Brazil had multiple rates of exchange and a 5 per cent tax on remittances for most purposes, under which exchange rates for remittances on foreign investments was less favourable than that applicable to most imports. Before 1946 there were six rates of exchange varying from a buying rate of 16.50 cruzeiros per dollar to a selling rate of 21 cruzeiros for certain non-trade transactions.

In 1946 the relaxation of exchange controls resulted in the abolition

^{1/} It is of interest that the Joint Brazil-United States Technical Commission, a body appointed in 1948 by the governments of the two countries to examine various aspects of the Brazilian economic situation, recommended the maintenance of well-co-ordinated import and exchange controls over a substantial period to assure the allocation of exchange to foreign investments. See the Report of the Brazil-United States Technical Commission (Washington, June 1949), page 176.

of these multiple rates, and the establishment of an official buying rate of 18.5 cruzeiros per dollar which has since been maintained. After the re-establishment of exchange priorities in June 1947 the 5 per cent tax was re-introduced, but remittances for the service of the official debt and for all private capital transactions except profits of foreign branches were exempted together with those for essential imports.

III. GOVERNMENT POLICY AND FOREIGN INVESTMENTS

Prior to the 1930's the question of a comprehensive policy toward foreign investments does not appear to have arisen in Brazil. Foreign enterprises were generally subject to the same policies as domestic, except in instances in which they received positive encouragement through such measures as subsidies, loans of local funds at low interest rates, guarantees of minimum return of invested capital (as in the case of the British-owned railways for a time), and specific exemption from taxes and import duties on certain products.^{1/}

Following the revolution of 1930, the so-called "Novo Estado" (new state) programme inaugurated a changed policy expressed generally in the provisions of the Constitutions of 1934 and 1937 and

^{1/} Two examples may be mentioned. By a law of 1875 the federal government authorized guaranteed returns up to 7 per cent of the capital invested in sugar factories. By 1844 fifty factories with a capital of £31 millions were established under this law, most of the investment originating in Great Britain. As late as 1933 tax exemption by specific legislation was accorded a United States-owned concern establishing a cement-producing plant.

specifically in various laws and administrative measures having the effect of limiting direct foreign investments in particular branches of industry. This trend was reversed by the more liberal provisions of the Constitution of 1946 and subsequent legislation. The legal status of future foreign investments in several fields of activity is rendered somewhat ambiguous, however, by the fact that some restrictive legislation, enacted under the Constitution of 1937, remains formally in force. This relates particularly to foreign investments in mining, commercial banking and insurance, although administrative action has been taken in the first two instances to secure conformity with the principles of the Constitution of 1946, which eliminated discrimination between domestic and foreign nationals as regards entry into these fields.

The controls applied since 1930 to foreign equity investments have fallen into two groups: (1) general regulations applicable to all such investments, concerning such matters as nationality of ownership, nationality of personnel employed, taxation and exchange control, and (2) controls limiting foreign investments to specified areas of economic activity and establishing the conditions of operation within these areas.

A. Entry of foreign enterprises^{1/}

Although the entry of foreign capital into a few fields of

^{1/} Detailed descriptions of the laws and regulations affecting foreign investments in Brazil have been published by the United States Department of Commerce (Establishing a Business in Brazil, International Reference Service, Vol. VI, No. 9 January 1929) by the Inter-American Development Commission (The Laws of Brazil, Washington, 1948).

/activity is

activity is restricted, as described below, in general there are no restrictions limiting foreign participation to minority interests or otherwise restricting the nationality of ownership of foreign concerns operating in Brazil or of the shareholders of Brazilian corporations. One general rule, of strategic rather than economic significance, is the prohibition against the acquisition by foreigners of land within 150 kilometers of the country's frontiers.

The Constitution of 1946 (Article 141) embodies a general guarantee that Brazilians and foreigners (including corporations) residing in the country shall be equal before the law; in practice, this equality also applies to non-resident foreigners engaged in business activities in Brazil. However, the charters of all foreign corporations (not established under the laws of Brazil) must be approved by the executive authorities. This provides a legal basis for administrative control of the entry of foreign capital. Foreign enterprises organized as subsidiaries under the laws of Brazil like Brazilian-owned enterprises, must obtain the approval of the authorities in conformity with existing laws. It may be recalled also that the exchange control legislation requires registration of foreign capital upon entry in order to establish eligibility for future remittance abroad. Under a Decree-Law of 1940 the authorities may require a foreign enterprise desiring to invest in Brazil to transfer to the country foreign exchange in an amount "adequate" for the purpose

of its operations.^{1/} The significance of this provision appears to be that it might prevent the enterprise from raising capital in Brazil to finance that part of its investment **requiring** local currency expenditure and would thus tend to relieve ~~the~~ inflationary pressures which might arise from such local financing.

The Constitution of 1946 assures foreign individuals and corporations resident in Brazil inviolability of rights relating to property on the same basis of domestic nationals. In the event of expropriation for "public necessity" or "social interest" the Constitution provides that prior and just compensation **shall** be paid in money (Article 141).

Two-thirds of the salaried or wage-earning employees of all commercial and industrial concerns operating in Brazil must be Brazilian nationals or aliens who have resided more than ten years in the country and are married to Brazilians or have Brazilian children. Similarly, the proportion of the payroll paid to Brazilians must be at least two-thirds. Branch plants are considered as separate units from their parent plants for the purposes of these requirements. An exception is made for foreign "technicians", provided the government determines that there is a shortage of eligible Brazilians, and in "special circumstances" the government may authorize exceptions to the two-thirds rule for other reasons.

Managers of foreign firms (those not incorporated in Brazil) must have legal residence in Brazil and foreign enterprises must also assign

^{1/} Decree-Law No. 2627, Article 64, 26 October 1940.

administrative power (power of attorney) to a Brazilian national. The law protects Brazilians by providing that their wages must equal those paid to foreign nationals for similar work, apart from seniority. An indication of the attitude toward foreign economic activity in the country prevalent during the 1930's was the provision of the 1937 Constitution restricting the practising of professions to Brazilian citizens. The 1946 Constitution, however, provides that the practice of any profession is open to all nationalities, subject to regulation by specific legislation (Article 141, paragraph 14).

Existing restrictions on foreign personnel have not occasioned serious objection from existing or potential foreign investors. Many of the technical personnel in Brazilian industry have been foreign, both in foreign and in Brazilian concerns, but qualified local technicians and managers are gradually replacing aliens, for example, in textile mills. In 1940, according to one estimate, "on the average not more than 1 per cent of the personnel of large American concerns in Latin America [were] American citizens."^{1/} Some recent government authorizations for the establishment of foreign-owned enterprises have stipulated a limit on the number of foreign employees and require the enterprise to give technical and administrative training to Brazilians with a view to eventual replacement of foreign nationals.

^{1/} George Wythe, "Outlook for Latin-American Industry" Inter-American Quarterly, (April 1940), page 46.

B. Control of investments in particular industries

The most significant controls over foreign investment in Brazil have been concerned with particular industries, of which the most important are mining, petroleum, hydro-electric power, banking and insurance, shipping, and air transport. The Constitution of 1937 (Article 144) provided that "The Law will regulate the progressive nationalization of mines, mineral deposits and waterfalls or other sources of power, as well as those industries considered basic or essential to the economic or military defense of the Nation." No general measures were taken to carry this Article into effect, however, and it has no counterpart in the Constitution of 1946.

Mining.

Under the 1934 Constitution governmental authorization was required to engage in mineral production, and regulations promulgated under this general rule provided that authorization would be granted only to Brazilian nationals, although companies in existence before 1934 were exempted from this provision. Some relaxation of this policy occurred in 1944 when a law was enacted permitting foreign nationals to own up to 50 per cent of the capital of domestically-incorporated mining companies, provided specific authorization was granted. Such authorization was subject to a series of conditions specified in the Mining Code of 1940, under which the government reserved the right to determine whether the conditions had been fulfilled and to terminate the authorization for failure to comply. The Mining Code does not state what rights the concessionaire possesses in case the authorization is

/declared

declared void, but some authorities believe that it implies a right to receive "just compensation."^{1/} The Mining Code of 1940 also provided that mineral deposits not exploited before November 1937 belong to the government not to the owner of the land's surface.

Further relaxation of the 1934 regulations was embodied in the Constitution of 1946 which provides that authorization for the exploitation of mineral resources may be granted to concerns incorporated in Brazil as well as to Brazilian nationals (Article 153), thus removing the limit on the extent of foreign ownership. A new mining code conforming to the Constitution has not yet been enacted, however, although the Department of Mineral Production has authorized foreign mining enterprises to operate pursuant to this policy.

Petroleum^{2/}

The Constitution of 1937 and a law of 1938 reserved production of petroleum from domestic oil reserves to concerns owned exclusively by native-born Brazilian nationals. Ownership of refineries was also restricted to Brazilians and a government license was required for importation and transportation of petroleum and its derivatives. The 1946 Constitution, as in the case of mining, relaxed the previous provisions, permitting concessions to exploit petroleum to be granted to corporations organized under the laws of Brazil as well as to

^{1/} Inter-American Development Commission, Laws of Brazil (Washington, 1948), page 34.

^{2/} For a more detailed account of the status of legislation relating to the petroleum industry see Report of the Joint Brazil-United States Technical Commission, pages 307-321.

Brazilian nationals.

The status of future foreign investments in this industry is undetermined, pending the enactment of specific legislation, for which a draft bill was presented to Congress by the President in February 1948. Under this bill wholly foreign enterprises would be permitted to engage in exploration and production of crude oil, but concessions for refining and for inland or coastal transportation would be granted only to "mixed" corporations formed by State and private capital or to corporations in which at least 60 per cent of the voting shares are owned by Brazilian nationals. Foreign interests may engage in the refining and transportation of oil for export, however. The restriction of foreign investments primarily to production is reported to be opposed by foreign oil interests on the ground that it would confine their operations to the more risky sector of the industry, while excluding them from the more profitable branches of transportation and refining for domestic consumption.^{1/} The bill also limits concessions for exploration and production to forty years, after which they may be taken over by the government at its option, subject to compensation according to "economic value". Foreign-owned producing companies would also be required to hold reserve stocks of crude petroleum equal to three times the nation's annual consumption and to contribute 10-14 per cent of the value of their annual production to a National Petroleum Fund. The draft bill is still under consideration by parliamentary committees.

^{1/} See Journal of Commerce (New York, 30 March 1948).

Opinion in Brazil is reported to be divided on the role of foreign investment in petroleum development. A Sub-Commission of the Joint Brazil-United States Technical Commission, composed of Brazilian representatives has expressed general approval of the draft Petroleum Statute as amended by the Committee in which it is now being considered. It expressed the view that foreign co-operation, whether by technicians or in the form of capital or equipment, would be of great benefit in carrying on the country's petroleum activities. It also stated that to conclude only contracts with foreign technicians for specialized services and to obtain the capital required through foreign loans rather than equity investments by foreign enterprises would add an undesirable burden to the federal government's budget and, in view of the high risks involved in petroleum activities, would serve to delay further the solution of the problem.^{1/}

In the meantime exploration by foreign concerns is permitted and a subsidiary of the Standard Oil Company of New Jersey has acquired a large tract of land in the state of Coias.^{2/} At the same time private United States technicians have been hired by the Brazilian government to undertake exploration and drilling operations. The government has also proceeded to establish a national oil refinery with half of its capital to be offered ultimately for public subscription. A United States firm has been awarded the contract to

^{1/} See Report of the Joint Commission, page 310.

^{2/} South American Journal (22 December 1947).

construct this refinery. In addition complete equipment for a petroleum refinery has been recently purchased by the government from France with accumulated franc balances equivalent to \$22 million. Two other refineries are also reported in process of establishment, the equipment for one to be purchased from Czechoslovakia. The government is also planning to purchase from Spain, Belgium and Holland, tankers with a capacity of 180,000 tons. The so-called SALTE Plan for economic development for 1949-53 (see below) contemplates a large expenditure for exploration, production, construction of refineries, and purchase of tankers with the objective of reducing the cost of petroleum imports by 50 per cent below current levels. The importance for the balance of payments of Brazil of increasing domestic refining of petroleum is indicated by the fact that if all petroleum imported in 1947 had been refined domestically there would have been a saving in foreign exchange of 400 million cruzeiros (about \$20 million).^{1/}

Hydro-electric power

As in the case of mining, the 1934 and 1937 Constitutions limited operations in the hydro-electric power industry to Brazilian nationals, except with respect to investments already made. A law subsequently relaxed this restriction somewhat by permitting new foreign investment in the industry at the government's discretion. The 1946 Constitution took account of this legislation by authorizing the granting of concessions for the production of hydro-electric energy to foreign concerns established under Brazilian laws as well as to Brazilian

^{1/} See Report of the Joint Commission, page 307.

nationals (Article 153). As the bulk of the power industry is foreign-owned, it is evident that specific legislation and administrative action concerning the industry, particularly in respect of rates, may directly affect foreign investments. One such measure was the Water Code of 1934, amended in 1938, requiring revision of existing power contracts and, pending such revision, prohibiting the power companies from expanding installations, increasing rates, or entering into new contracts to supply power. The prohibition on rate increases continued until 1943 when a decree-law provided for revision of rates by the companies, subject to government review.

The position of public utility enterprises in Brazil has been affected by the rise in prices and costs which has occurred over a long period, but particularly by the tripling and quadrupling of prices between 1939 and 1948.^{1/} Since changes in utility rates have lagged greatly behind these price movements, the yields on investments in these industries have been affected accordingly. In the past some public utility enterprises arranged with the government for a "gold clause" in their franchises, linking utility rates with the exchange rate of the cruzeiro. For example, the Brazilian subsidiary of the American and Foreign Power Company obtained an agreement that 50 per cent of its rates should be adjusted in accordance with variations in

^{1/} The index of "working class" cost of living in Sao Paulo rose from 100 in 1939 to 364 in 1948, and the index of wholesale prices rose from 100 in 1939 to 423 in 1948. (See Report of Joint Commission, page 40).

the exchange rate (which was assumed to be likely to vary more or less inversely with general price movements). In practice, however, this type of arrangement has been of little effect owing to popular resistance to changes in utility rates. The Report of the Joint Brazil-United States Technical Commission has stressed the fact that the impairment of the earning power of electric utility and railway enterprises in Brazil resulting from the recent inflationary trends has made difficult the private financing of new investments in these industries, whether from foreign or domestic sources.^{1/}

Other industries

As already observed, the Constitution of 1946 eliminated previous general limitations on foreign investments in mineral extraction, hydro-electric power and banking. Certain restrictions of minor importance remained, however. Coastal shipping is reserved exclusively to Brazilian-owned vessels, except in case of "public necessity" (Article 155). The publication of newspapers or periodicals and radio broadcasting are reserved to concerns wholly owned by Brazilians (Article 160). The Constitution imposes no restriction on foreign enterprises in insurance, but under an existing law (Decree-Law No. 2036 of March 1940) no new foreign insurance company may be established in Brazil, although companies in operation prior to 1937 may continue, and present policies continue to be governed by this legislation. The trend toward liberalization of the

^{1/} See Report of the Commission, page 12.

provisions of the 1934 Constitution relating to foreign banks has been described above. Statutory limitations also exist on foreign enterprises in aviation and the manufacture of pharmaceuticals. Aviation companies operating within the country must be organized in Brazil under Brazilian management and with at least one-third of the shares owned by resident Brazilian citizens. Under a Decree-Law of 1946 companies manufacturing pharmaceutical products must have a qualified Brazilian pharmacist as technical manager who is to receive a minimum salary specified by the law.

C. Government participation in the economy

Prior to the late 1930's, governmental intervention in the Brazilian economy took the form primarily of various planning and regulatory bodies for specific industries.^{1/} An exception was the railways, a steadily increasing proportion of which was owned and operated by the federal and state governments. Prior to the acquisition of the Sao Paulo Railway in 1946 the federal government owned 62 per cent of the railway mileage and operated 38 per cent, while the state governments owned about 9 per cent and operated 31 per cent. A large-scale programme for the rehabilitation and expansion of the railways, mainly through direct government operation, is

^{1/} Fields in which official regulatory bodies have operated included electric power, petroleum, coffee and meat packing. Other products regulated by official or semi-official trade associations included fruit, milk, fish, manioc, sugar, timber, mate, salt and rice. In addition to performing normal trade association functions, these bodies in some cases operated schemes for the restriction of output.

contemplated.

In recent years government-sponsored development projects have embraced a variety of activities. The most important are the National Steel Company, the Rio Doce Valley Company for mining iron ore, the San Francisco Hydro-electric Company (not yet in operation), the National Alkali Company, and the National Motor Engine Factory.^{1/} The National Electrification Plan established at the beginning of 1947 contemplates expanded governmental participation in hydro-electric projects. These concerns are in the form of so-called "mixed" companies in which the government holds the majority stock interest and the remainder is held by or is to be sold to nationals of the country. They have been assisted by exemption from taxes and import duties and in other ways. Government operations in petroleum refining have already been mentioned. Other important government ventures include three industrial alcohol distilleries, two cement plants and the largest steamship company in coast-wise trade, Lloyd Brasileiro.

In May 1948 the President of Brazil submitted to the Congress a five-year programme of economic development, embracing a number of public and private projects, which has come to be known as the SALTE Plan.^{2/} This name is derived from the scope of the projects

^{1/} For a description of these enterprises see United Nations, Economic Development in Selected Countries (1947), pages 85-92.

^{2/} For a full description of the SALTE Plan see Report of the Joint Commission, pages 182-190.

contemplated in the following fields: health (saude), food (alimentos), transportation (transporte), and hydro-electric power and petroleum (energia). Total expenditures contemplated under the programme are estimated at 28,575 million cruzeiros (\$1,543 million) of which some 7,000 million cruzeiros (\$378 million) represent imports. The bulk of the outlays contemplated are to be made by the federal government. Private investments included in the above figures are confined to electric power generation, for which an amount of 6,822 cruzeiros (\$368 million) is allotted over the five-year period. The plan includes no provision for amounts expected to be invested by private foreign petroleum interests; the amount budgeted for governmental outlays in the exploration for petroleum, the building of refineries and the purchase of tankers is 2,500 million cruzeiros (\$140 million). The largest single item of the programme is transportation, with 6,500 million cruzeiros (\$351 million) allotted to railways alone. It is estimated that the additional expenditure under the SALTE Plan in excess of the normal budgets of the federal and local governments would be about 3 per cent of the national income.^{1/}

The scope of governmental outlays under the SALTE Plan indicates that it is contemplated that the expansion of manufacturing and of electric power generation in Brazil are to be undertaken by private enterprise. Some of the outlays for railways include outlays for

^{1/} See George Wythe, Brazil, (New York, 1949), page 357.

the benefit of privately-owned railways for which reimbursement would be obtained under agreements to be negotiated. As noted, no amount is budgeted for private enterprises in petroleum, which reflects the unsettled state of policy. It may be observed that the Joint Commission expressed the view that "financing of industrial and mineral development should be primarily a private function at the present stage of Brazil's economic development (although the government will continue to operate certain large-scale enterprises)".^{1/}

D. Taxation

In general foreign enterprises are subject to the same taxes as domestic concerns. Taxes on business incomes are relatively low, ranging from 10 per cent to a maximum of 15 per cent on incomes in excess of 500,000 cruzeiros (\$25,000). Public utility companies are taxed at the more favourable rate of 8 per cent on profits which are less than 12 per cent of capital invested. In addition to the normal tax on business incomes all dividends on bearer shares (including shares of foreign-owned subsidiaries) are subject to a tax of 15 per cent, withheld at the source. The Brazilian income of foreign branch plants or individuals domiciled abroad is also taxed at the source at the rate of 15 per cent, in addition to the normal tax on business incomes. Profits of branches reinvested in the expansion of their enterprise in Brazil are exempt from this withholding tax, however.

Thus far, Brazil has not entered into any international treaties

^{1/} See Report of the Joint Commission, page 189.

for the avoidance of double taxation. In the case of United States enterprises, however, taxes paid to Brazil may in general be offset against tax liabilities to the United States. The Report of the Joint Brazil-United States Technical Commission, to which reference has already been made, expressed the view that even though present tax laws in the United States largely eliminate double taxation of income derived from foreign investments in Brazil, the scale of taxation in the United States is such as to reduce materially the net return from such investments and hence to reduce the incentive to assume the risks involved.^{1/} The Commission recommended that consideration of this matter should be supplemented by a convention designed fully to eliminate double taxation of income.

In the Report of the Joint Commission, a Sub-Commission established to consider policies relating to foreign investments in Brazil also made several observations of interest in connexion with the taxation of such investments.^{2/} The Sub-Commission recommended that some tax concessions might be granted to favoured foreign investments in specific fields, provided that such procedure was not unfair to existing investments and on the understanding that no exemptions from the income tax should be granted. The Sub-Commission also recommended that Brazilian taxes should be maintained at a level below taxes in capital-exporting countries to stimulate the reinvestment of earnings of foreign investments.

^{1/} See Report of the Joint Commission, page 179.

^{2/} See Report of the Joint Commission, pages 288-306. The Sub-Commission was composed of Brazilian representatives only.

E. Tariffs

While maintaining a protective tariff on imports of most manufactured goods with more moderate rates on raw materials and semi-manufactures, Brazil has pursued a policy of granting concessions on import duties in particular industries which the government wishes to encourage.^{1/} Both the protective tariffs and the concessions thereunder may have encouraged foreign as well as domestic investment in the sheltered industries. Many industries have been dependent upon the protection thus afforded, the most notable being the manufacture of cotton textiles.^{2/} It is reported, however, that in general the Brazilian Government does not at present seek to foster the development of industries through granting new enterprises exemption from duties on imports required for their operation.^{3/} Protection has also been accorded by "mixing regulations" requiring the use of a minimum proportion of domestically produced commodities in certain products.

^{1/} This policy was embodied in Decree-Law No. 300 of February 1938. Some concession contracts with utility companies and other enterprises providing exemptions from duties pursuant to this law are still in effect.

^{2/} See United States Tariff Commission, Economic Controls and Commercial Policy in Brazil, (Washington, 1945), page 8. Between 1930 and 1940 customs revenues were equivalent to between 20 and 30 per cent of the total value of imports, including those free of duty.

^{3/} See United States Department of Commerce, Establishing a Business in Brazil, (Washington, January 1949), page 12.

F. Other aspects of policy

The provisions of the Constitution of 1946 and related laws establish a legal framework which, with the exceptions previously noted, does not discriminate between domestic and foreign private investment. In recent months the Brazilian government has given further indication of a desire to attract foreign direct investments.

In May 1948 the government joined with the government of the United States in establishing the Joint Brazil-United States Technical Commission, to which reference has previously been made. This body, composed of representatives of the two governments, was authorized to investigate various aspects of the future economic development of Brazil. Its terms of reference included, among other things, the consideration of measures designed to encourage the flow of private capital to Brazil. Some of the views of the Commission have been mentioned previously, but it appears useful here to summarize the chief recommendations relating to private foreign investments submitted by a special Sub-Commission of the Joint Commission, composed entirely of Brazilian representatives.^{1/} The Sub-Commission suggested that foreign investments should be classified into "ordinary" and "favoured" investments. Favoured investments are defined as those which would increase exports or permit the reduction of imports, would contribute substantially to national productivity and, in particular, would provide technical knowledge not otherwise available.

^{1/} The report of the Sub-Commission is contained in Appendix C of the Report of the Joint Commission.

While endorsing the present policy of establishing maximum limits on the transfer of earnings and capital of foreign investments, the Sub-Commission recommended that preferential treatment in this respect be extended to favoured investments. Other concessions, including tax concessions, were also recommended for such investments, but exemptions from the income tax were specifically excluded. It was recommended that in granting privileges to favoured investments, consideration should be given to the extent to which such investments afford facilities for training Brazilian technicians.

The Sub-Commission recommended that a comprehensive law be enacted embodying the main features of the policies recommended. It also expressed the view that existing Brazilian legislation is generally consistent with the provisions of the draft Economic Agreement of Bogotá (signed at the Ninth International Conference of American States in May 1948) relating to foreign investments. It may be observed that Brazil did not enter any formal reservations with respect to these provisions, including those relating to compensation in the event of nationalization or expropriation of foreign investments.

Following completion of the report of the Joint Commission, the Governments of Brazil and the United States announced in May 1949 their intention to begin negotiation of a bilateral treaty to stimulate the

flow of private foreign investment to Brazil.^{1/}

^{1/} Such a treaty was concluded between the United States and Uruguay on 23 November 1949. For a discussion of the main features of this treaty see a report by the United Nations Secretariat entitled Survey of Policies Affecting Private Foreign Investment, (E/1614/Rev.1, 8 March 1950), pages 45-49.