Part 1

MT

CONFIDENTIAL FILING

UK/BRAZILIAN RELATIONS

INTERNAL SITUATION

(Including mtgs with the Brazil Govt).

S 3008

BRAZIL

SEPTEMBER 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~4.1.93~~							
~~11.3.93~~							
~~18.10.93~~							
~~4.11.93~~							
23.2.94							
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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 24th Meeting, item 2	11/07/1985
CC(85) 14th Meeting, item 2	25/04/1985
CC(85) 11th Meeting, item 2	21/03/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed_____ Date_____

PREM Records Team

Foreign and Commonwealth Office documents

Reference:	DD 1985/206 DESPATCH
Description:	Carnival in Rio: A City's Safety Valve Her Majesty's Ambassador at Brasilia to the Secretary of State for Foreign and Commonwealth Affairs
Date:	29 March 1985
Reference:	DD 1986/494 DESPATCH
Description:	Brazil is Different Her Majesty's Ambassador at Brasilia to the Secretary of State for Foreign and Commonwealth Affairs
Date:	3 November 1986
Reference:	DD 1986/11 DESPATCH
Description:	Brazil: Annual Review for 1985 Her Majesty's Ambassador at Brasilia to the Secretary of State for Foreign and Commonwealth Affairs
Date:	1 January 1986
Reference:	DD 1985/16 DESPATCH
Description:	Brazil: Annual Review for 1984 Her Majesty's Ambassador at Brasilia to the Secretary of State for Foreign and Commonwealth Affairs
Date:	1 January 1985

The above FCO documents, which were enclosed on this file have been removed and destroyed.

Such documents are the responsibility of the Foreign and Commonwealth Office. When released they are available in the appropriate FCO CLASSES.

Signed _____ Date _____

PREM Records Team

10 DOWNING STREET

(1) Roderic

(2) CF

FCO tell me Brazilian President will not now visit UK in December. (Call on PM on 15th at 1500 is Hansard Off.)

S 26/11

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 November 1993

Dear Ambassador,

It was very good of you to drop in to see me on 3 November before your departure for Washington. You will be greatly missed in London. I am very grateful for all that you have done for relations between Britain and Brazil during your three and a half years here, and especially for your help and advice at the time of my own visit to Brazil.

Thank you for the beautiful set of books on the Langsdorff expedition to Brazil in the early part of the last century. The books have a wealth of magnificent illustrations which will serve as a further happy reminder of my visit. It was most kind of you to give me such a handsome present.

Yours sincerely,
John Major

His Excellency Senhor Paulo-Tarso Flecha de Lima

SUBJECT MASTER

Filed on:

File

bc: RB

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 November 1993

Dear Stephen,

FAREWELL CALL BY THE BRAZILIAN AMBASSADOR

We managed to fit the Brazilian Ambassador in for a very short (about eight minute) farewell call and photograph with the Prime Minister on the morning of 3 November. Although the Prime Minister will be seeing the Brazilian President when he passes through London in mid-December, he is conscious that he has not had a great deal of time to devote to Brazil since his 1992 visit; and he wanted to acknowledge the helpful role played in that visit by Ambassador Flecha de Lima.

The conversation was mainly pleasantries. The Ambassador said that one of his last bits of business in London had been to discuss with the Home Office the possible extradition of the well-known collaborator of President Collor.

The Ambassador was delighted that Mr Major had made the first visit ever to Brazil by a British Prime Minister in office. He felt that bilateral relations were in reasonably good shape, and was pleased that there had been a series of visits at Minister of State level. However, the Prime Minister was surprised to learn that, apart from his own visit, there had been no visit by a British Cabinet Minister to Brazil during the three and a half years in which Flecha de Lima had served in London. Flecha de Lima also said that the trade turnover between Britain and Brazil was stagnant, although the Brazilian economy would grow by 6 per cent this year.

Flecha de Lima will be Sir Robin Renwick's neighbour in Washington. The Prime Minister said he was sure that the Brazilian would take advantage of this, and would find Sir Robin to be an outstanding colleague. I am therefore copying this letter (and Flecha de Lima's personal letter of 26 October to the Prime Minister) to Robin Renwick.

Yours ever,
Roderic

RODERIC LYNE

J.S. Smith Esq
Foreign and Commonwealth Office

10 DOWNING STREET

Prime Minister

Brazilian Ambassador

This should be genuinely short. Pleasantries :. no brief

- visit to Brazil
- your distinguished stay in London ($3\frac{1}{2}$ years): what memories are you taking away
- ? I know the Princess of Wales will miss your wife?
- congratulations on Washington. Fine colleague in Rennes.

Rotten.

RODERIC

cc: Ian Beaumont (Press Office)

S

FAREWELL CALL BY BRAZILIAN AMBASSADOR

The Ambassador will be delighted to call on the Prime Minister **on Wednesday 3 November at 0930 am.** I have warned that it will be very brief, but said that we would arrange for a photographer to be present.

Do FCO need to provide a brief? — v. short + CR + note on his time on London pls.

S.

SANDRA
1 November 1993

R.

10 DOWNING STREET

Rod
Photocall outside Cabinet Room

P

R28/10

PAULO TARSO FLECHA DE LIMA
Brazilian Ambassador

The Brazilian Embassy
32, Green Street
London W1Y 4AT

Strictly Personal

London, October 26th, 1993.

The Rt Hon. John Major, MP
Prime Minister
First Lord of the Treasury
Minister of the Civil Service
10, Downing Street
London SW1

My dear Prime Minister,

I wanted to write to you lo let you know that I shall be leaving London very soon to take over the Brazilian Embassy in Washington. I have already bid official farewell to the Minister of State, Mr David Heathcoat Amory, and I should be received by H.M. The Queen on the 28th of October. My farewell party, as your staff may have told you, will be on the 3rd of November

Although I am fully aware that protocol-wise it is not usual nor required, I would deem it a particular honour to be allowed to bid you a personal farewell, and if possible have a photograph taken with you on this occasion, as a memento for my grandchildren of this particularly happy period of my career.

I venture to ask for this exceptional courtesy on the grounds of my having had the great honour to accompany you on your visit to Brazil, which was the first time any British Prime Minister, either in office or retired, ever set foot on Brazilian soil. This in itself was a very special occasion, of which I am proud to have been a part.

PAULO TARSO FLECHA DE LIMA

I fully realize how tight your schedule is, and how it can be argued that such a meeting might set a precedent. I think, however, that an imaginative approach must sometimes apply to concern over the establishment of precedents, and I think you might agree that I have good grounds to justify my request. On my part, I would regard the occasion as strictly personal and would treat it accordingly.

I shall, by the way, be living next door to Sir Robin Renwick, so that if, on one of your visits to Washington, you happen to stay at your Embassy there, you will know that you need only call me and I will be over the fence at once!

In any case, should you feel that, after all, there are no appropriate reasons to concede to my request, I wish to express to you my warmest thanks for all the courtesies you have extended to me during my stay in this great country where I was lucky to make many good friends. These years have indeed been one of the happiest periods of my life, and this is a feeling shared by my wife and the two of our children who have been living with us and are staying on to complete their studies here. My young son, although he has not become a cricket enthusiast, has become a very keen rugby player, and I was surprised to know that in his search for an American university to attend next year, the prime requirement was that it should be where rugby is on the agenda. I hope that my countrymen, who are so soccer-orientated, will not be upset by this turn of events.

I look forward to hearing from you and reiterate my sincere appreciation for all the good-will which I have enjoyed.

With my warmest wishes

Yours sincerely

Paulo Tarso Flecha de Lima

RESTRICTED

KW
cc SP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 October 1993

Dear Charlie,

BRAZILIAN PRESIDENT

In his letter of 5 October, Stephen Smith asked if the Prime Minister could see President Itamar Franco for a brief photocall and a few minutes talks in the week of 13 December.

The Brazilians would presumably take it amiss if we shuffled their President out in less than 30 minutes, albeit on an unofficial visit. We shall therefore allow half an hour for the engagement, but would appreciate your assistance in ensuring that it does not overrun.

If it is possible for the President, the safest option would appear to be Wednesday 15 December at 1600. (I understand that the Foreign Secretary would not be available at that time, but perhaps another Minister could help with the exit strategy). The only other spaces free in the diary are problematic. If the Speaker does not allow questions following the Prime Minister's European Council Statement to overrun, the Prime Minister could probably offer 1715 on Monday 13 December. For the reason given, we cannot be certain that this is a starter. The other alternative would be 0930 on Tuesday 14 December. As this is a Questions Day, and has an OPD meeting scheduled for the morning, time keeping would be at a premium.

I would be grateful if you could now conduct some reconnaissance with the Brazilians.

Yours ever,
Roderic

RODERIC LYNE

C R V Stagg Esq
Foreign and Commonwealth Office

KW

RESTRICTED

CONFIDENTIAL

Foreign &
Commonwealth
Office

London SW1A 2AH

5 October 1993

Dear Robin,

BRAZIL: POSSIBLE STOPOVER OF PRESIDENT ITAMAR FRANCO

President Franco of Brazil is considering a stop-over in London on his way to a Summit of the Group of 15 in New Delhi on 16 December. We need to decide whether to encourage him to do so.

Itamar Franco is President of Brazil by default. He came to office on the impeachment of his predecessor Fernando Collor late last year and will step down after the next presidential elections at the end of 1994. He inherited formidable problems: an inflation rate of 30% a month, a large public debt, a widening gap between rich and poor, and an economy in recession. His touch has not been sure, and he has had difficulty in balancing his desire to tackle Brazil's immense social problems with the need for painful economic and fiscal adjustments. However, Brazilian tariffs have recently come down, ports deregulation has advanced, and Brazil's privatisation programme has been reactivated and broadened. The economy is growing again. In May President Franco appointed the cabinet heavyweight, Fernando Cardoso (who made a successful visit to London in January as Foreign Minister) as Finance Minister to implement a long awaited set of financial and economic measures intended to keep Brazil moving in the right direction. The necessary political support is proving difficult to secure, and some of Franco's congressional allies are starting to distance themselves as the presidential election approaches. Franco deserves some encouragement to keep the show on the road.

Despite its difficulties, Brazil is a giant, with a large (about US $20bn imports a year), if difficult, market for British goods and services. It imported £273m from the UK in 1992. It is active and influential at the UN where it now occupies a seat on the Security Council. The Brazilians are also quietly helpful on Falklands issues; they are providing staging facilities for Falklands flights through Recife this autumn while the runway at Ascension is being repaired.

Contact with the Prime Minister would be an important element in any visit by President Franco. This would reinforce our encouragement of the Franco administration to

persevere in its struggle with Brazil's economic ills, and bolster our own efforts to strengthen our bilateral relations, not least in support of substantial British investment in and trade with Brazil. A brief photo-call early in the week of 13 December, followed by a few minutes talks, would do the trick. The Foreign Secretary might then see the President for a longer discussion.

Yours ever,

(J S Smith)
Private Secretary

Roderic Lyne Esq CMG
10 Downing Street

SUBJECT MASTER
Filed on:

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 September 1993

Dear Mr. President,

I am writing to thank you for the generous co-operation which Brazil has extended to the United Kingdom over the years in providing staging and visiting facilities to the aircraft and ships servicing our links with the Falkland Islands.

The most recent example has been the staging of Royal Air Force re-supply flights to the Falkland Islands through Recife Airport while essential repairs are carried out to the runway on Ascension Island. The work at Ascension is well under way and should be completed by the middle of November. The flights are running smoothly and the Royal Air Force speak highly of the help they are receiving from the Brazilian Air Force, the airport officials at Recife and from the staff of VARIG. Your continuing help is, I believe, a clear illustration of the excellent relations which exist between our two countries.

I have fond memories of my own visit to Brazil in June last year. I am glad that as well as attending the Earth Summit, I was able to see something of what has attracted so many British people to Brazil over the centuries.

Yours sincerely,
John Major

His Excellency Senhor Itamar Franco

Foreign &
Commonwealth
Office

London SW1A 2AH

Prime Minister (3)
Letter attached
for signature below.
AC
21/9.

20 September 1993

Dear Roderic,

Temporary use of Recife, Brazil for RAF flights to the Falklands

While essential repairs are being made to the runway on Ascension Island (from early September until mid-November) our air-link with the Falklands is being kept open by staging the twice-weekly Tristar passenger and cargo flights through Recife in Brazil.

Mr Heathcoat-Amory's visit to Brazil (13-16 October) gives us an opportunity to convey our thanks to President Itamar Franco for his government's cooperation. This might best be achieved by means of a short letter from the Prime Minister to the President, which Mr Heathcoat-Amory could deliver - we hope that it will be possible for him to see the President. The Ministry of Defence agree. I enclose a draft.

I am copying this to John Pitt-Brooke (MOD).

Yours ever,
Stephen.

(J S Smith)
Private Secretary

Roderic Lyne Esq CMG
10 Downing Street

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FROM AMBASSADOR (VISITING RIO DE JANEIRO)

FAX DEWBERRY (LAD) TO KENT (HM EMBASSY BRASILIA) OF 11 MARCH:
STREET CHILDREN AND DEATH OF QUOTE JUANITO UNQUOTE

SUMMARY

1. THE LURID REPORT IN THE DAILY EXPRESS OF 11 MARCH HEADED QUOTE MAJOR ORDERS: FIND THE KILLER OF MY LITTLE FRIEND JUANITO UNQUOTE IS CONFUSED AND EXAGGERATED IN ITS COVERAGE OF THE EVENTS IN BRAZIL. IN ADDITION TO PUTTING SOME OF THE FACTS STRAIGHT WE CAN ALSO POINT TO THE HELP HMG IS GIVING TO THE STREET CHILDREN PROBLEM.

DETAIL

2. DEWBERRY'S REFERENCE FAX ARRIVED AS I BEGAN A TWO DAY VISIT TO RIO DE JANEIRO. I HAVE THEREFORE BEEN ABLE TO GIVE SOME TIME TODAY 11 MARCH TO TRYING TO ESTABLISH THE FACTS SURROUNDING THE CASE IN THE DAILY EXPRESS REPORT, ON WHICH WE HAVE HAD FURTHER PRESS ENQUIRIES TODAY, BOTH FROM THE UK AND LOCALLY. THE BRAZILIAN PRESS HAVE ALSO NOW PICKED THIS UP FROM THE BRITISH PRESS AND HAVE GIVEN SOME PROMINENCE TO THE REPORTS. THE CASE WAS ALSO RAISED I UNDERSTAND IN RECENT LETTERS TO THE PRIME MINISTER BY MARK ADAMS MP AND BY IAN BRUCE MP TO GRAHAM BRIGHT MP.

3. AT A MEETING WHICH HMCG RIO DE JANEIRO, PAT KELLY, AND I HAD WITH TWO SENIOR OFFICIALS OF THE SAO MARTINHO STREET CHILDREN REFUGE (WHERE QUOTE JUANITO UNQUOTE WAS KNOWN AND WHERE HE MET THE PRIME MINISTER) WE RECEIVED CONFIRMATION THAT JUANITO WAS MURDERED IN THE STREET OF A POOR (AND THEREFORE, SADLY, VIOLENT) DISTRICT OF RIO DE JANEIRO LAST SEPTEMBER. HE DID BRIEFLY MEET THE PRIME MINISTER DURING THE LATTER'S VISIT TO THE SAO MARTINHO REFUGE IN JUNE, BUT HE WAS A SIX FOOT TALL 17 YEAR OLD AND NOT THE SMALL BOY CLUTCHING THE PRIME MINISTER AS DESCRIBED IN THE PRESS ARTICLE. (A

DIFFERENT SMALL BOY AT THE HOME DID HAVE CLOSER CONTACT WITH THE PRIME MINISTER.) IT SEEMS THERE IS LITTLE FIRM EVIDENCE SURROUNDING QUOTE JUANITO'S UNQUOTE MURDER, BUT HIS FAMILY BELIEVE HE WAS KILLED BY A LOCAL GANGSTER BOSS, PROBABLY AS A RESULT OF MISTAKEN IDENTITY. LOCAL REPORTS HAVE IT THAT THE KILLER WAS HIMSELF MURDERED A FEW MONTHS LATER. THERE IS NO SUGGESTION THAT QUOTE JUANITO UNQUOTE WAS KILLED BY ANY OFFICIAL OR QUASI OFFICIAL GROUP. QUOTE JUANITO UNQUOTE WAS NOT TECHNICALLY HOMELESS. BOTH HIS MOTHER AND AN OLDER SISTER LIVED SEPARATELY IN THE DISTRICT WHERE HE WAS KILLED AND QUOTE JUANITO UNQUOTE CHOSE TO LIVE WITH THE SISTER.

4. WE HAVE ALSO OBTAINED TODAY A POLICE REPORT OF THE DEATH. IT SAYS HE WAS SHOT THREE TIMES, AND THERE WERE NO WITNESSES. IT HAPPENED AROUND MIDDAY ON 20 SEPTEMBER, AND WAS REPORTED BY HIS SISTER. THE OFFICIALS AT THE SAO MARTINHO REFUGE SAID THESE POLICE REPORTS RARELY CONTAIN MUCH, SINCE IN SUCH DISTRICTS NOONE TALKS TO THE POLICE. A SEPARATE LAWYERS REPORT FROM AN NGO FUNDED BY THE CENTRAL GOVERNMENT TO INVESTIGATE HUMAN RIGHT CASES SUGGESTS AN QUOTE EXTERMINATING GROUP UNQUOTE WAS RESPONSIBLE BUT OFFERS NO EVIDENCE TO SUPPORT THIS. THIS REPORT WAS ALSO GIVEN TO US BY THE POLICE.

5. THE FOLLOWING ILLUSTRATES THE HELP THAT HMG HAS GIVEN TO ASSIST WITH BRAZIL'S STREET CHILDREN PROBLEM WHICH CAN BE QUOTED TO REBUT ANY SUGGESTIONS OF INDIFFERENCE.

(A) AS A DIRECT SEQUEL TO THE PRIME MINISTER'S VISIT WE HAVE PURCHASED FOR POUNDS 50,000 (PROVIDED BY ODA) A HOUSE TO SHELTER ABOUT 15 YOUNG STREET GIRLS, AND A DAY CENTRE FOR MORE. I VISITED IT TODAY. IT IS A SPLENDID OLD BUILDING WHICH ALTHOUGH NOW A LITTLE DECAYED WAS HIGHLY ELEGANT IN ITS DAY. REPAIRS ARE BEING MADE AND IT SHOULD BE READY FOR OCCUPANCY IN ABOUT TWO MONTHS.

(B) IN THE YEARS 1990-1993, WE HAVE MADE EIGHT GIFTS UNDER THE HEADS OF MISSION GIFT SCHEME TO STREET CHILDREN RELATED CAUSES, WITH VALUES RANGING FROM POUNDS 1,000 TO POUNDS 11,000. UNDER THE HEADS OF MISSION SMALL PROJECTS SCHEME OVER THE SAME PERIOD EIGHT PROJECTS WITH VALUES RANGING FROM 6,000 TO 50,000 POUNDS HAVE BEEN SUPPORTED.

(C) THE FCO SCHOLARSHIPS SCHEME HAS BEEN USED TO SPONSOR THOSE WORKING FOR HUMAN RIGHTS AND STREET CHILDREN AND THE PRESENT HEAD OF THE BRAZILIAN CENTRE FOR INFANCY AND ADOLESCENCE (CBIA), THE

FEDERAL GOVERNMENT BODY MOST CONCERNED WITH CHILDREN'S RIGHTS AND STREET CHILDREN STUDIED IN THE UK UNDER THE SCHEME. IN NOVEMBER, 1992 WE CONTRIBUTED US DOLLARS 10,000 FROM THE AUS PROGRAMME BUDGET TO HELP THE NATIONAL STREET CHILDREN'S MOVEMENT (MNMMR) FINANCE THEIR THIRD NATIONAL MEETING.

6. THESE ILLUSTRATE NOT ONLY THE CONCERN OF HMG BUT THE ACTIVE INVOLVEMENT OF THE EMBASSY AND CONSULATES AND OF MY PREDECESSORS AND MYSELF AND THE CGS IN THESE PROBLEMS.

KELLY

YYYY

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MY TELNO 446: RESIGNATION OF PRESIDENT COLLOR

SUMMARY

1 PRESIDENT ITAMAR FRANCO SWORN IN ON 29 DECEMBER. COLLOR DEPRIVED OF THE RIGHT TO STAND FOR OFFICE UNTIL 2001 FOLLOWING A CONTROVERSIAL SENATE DECISION TO CARRY THE IMPEACHMENT PROCESS THROUGH TO A VERDICT.

DETAIL

2 ITAMAR FRANCO WAS DULY SWORN IN AS PRESIDENT OF BRAZIL AT A CEREMONY IN CONGRESS ON 29 DECEMBER HELD WITHIN HOURS OF THE RECEIPT OF COLLOR'S RESIGNATION. IT WAS AN EXTRAORDINARY SCENE WHICH I WATCHED FROM THE GALLERY. THE PUBLIC GALLERIES ARE LARGE AND THE SECURITY FORCES LET IN AROUND 200 ANTI-COLLOR DEMONSTRATORS TYPICAL OF THOSE WHO HAVE BEEN ACTIVE THROUGHOUT THE CAMPAIGN FOR COLLOR'S OVERTHROW, MOSTLY LATE TEENS AND EARLY TWENTIES, WITH FACES PAINTED IN BRAZIL'S NATIONAL COLOURS AND CARRYING SCARVES, BANNERS AND WHISTLES. THEY ROARED APPROVAL AS COLLOR'S RESIGNATION LETTER WAS READ OUT. THEY REPRODUCED THE CHANTS AND SONGS OF THE KOP WITH BOLD, POLITICAL WORDINGS, THEY TOSSED PACKETS OF ANTI-COLLOR T-SHIRTS TO THE STARTLED CONGRESSMEN BELOW. BEFORE ITAMAR FRANCO COULD SPEAK THEY BROKE INTO A SPONTANEOUS AND TUNELESS RENDERING OF BRAZIL'S NATIONAL ANTHEM (WHICH IS PARTICULARLY LONG) LEAVING THE CONGRESSMEN BELOW WONDERING WHAT TO DO, BUT ONE BY ONE THEY, AS WELL AS ITAMAR FRANCO AND THE PRESIDENT OF THE SENATE, STOOD TO ATTENTION UNTIL IT WAS OVER. NONE TOOK OFFENCE AT ANY OF THIS, AND CLEARLY ITAMAR FRANCO RATHER ENJOYED IT.

3 SENATORS SUBSEQUENTLY DECIDED BY A LARGE MAJORITY TO COMPLETE THE IMPEACHMENT HEARING ON WHICH THEY HAD JUST EMBARKED WHEN COLLOR ANNOUNCED HIS RESIGNATION. THEY REACHED THEIR VERDICT IN THE EARLY

HOURS OF THE MORNING OF 30 DECEMBER. BY A MARGIN OF 76 VOTES TO 3, THEY FOUND COLLOR GUILTY. THE PRACTICAL EFFECT IS TO DEPRIVE COLLOR OF HIS POLITICAL RIGHTS FOR EIGHT YEARS. HE CANNOT NOW STAND FOR PUBLIC OFFICE UNTIL 2001.

4 IN A SEPARATE DEVELOPMENT, THE FEDERAL PROSECUTOR ANNOUNCED HIS INTENTION OF PRESSING CRIMINAL CHARGES AGAINST COLLOR AND SEVERAL OF HIS ASSOCIATES AS SOON AS POSSIBLE.

COMMENT

5 THE SENATE DECISION TO CARRY IMPEACHMENT THROUGH TO A VERDICT WAS CONTROVERSIAL. SOME LAWYERS ARGUE THAT COLLOR'S RESIGNATION SHOULD HAVE FORESTALLED ANY FURTHER ACTION: AND CLEARLY THAT WAS COLLOR'S OWN HOPE. THE ARGUMENT THAT PREVAILED WAS ESSENTIALLY A POLITICAL ONE: IT WOULD NOT HAVE BEEN UNDERSTOOD BY PUBLIC OPINION IF COLLOR HAD LEFT THE PRESIDENCY ONLY TO BE FREE TO STAND AGAIN FOR OFFICE AT THE EARLIEST OPPORTUNITY.

6 COLLOR'S POLITICAL CAREER IS THUS AT AN END, AT LEAST FOR SOME TIME TO COME. I AM SENDING BY BAG A DESPATCH IN WHICH I OFFER AN EVALUATION OF HIS PRESIDENCY.

HEAP

FCO PLEASE PASS SAVING ADDRESSEES EXCEPT SAO PAULO
YYYY

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CONGRATULATORY MESSAGE TO THE ACTING PRESIDENT

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO ACTING PRESIDENT ITAMAR FRANCO.

BEGINS

MAY I SEND YOU MY WARMEST RESPECTS AS YOU BECOME BRAZIL'S ACTING PRESIDENT. YOU TAKE OVER THE PRESIDENCY IN DIFFICULT CIRCUMSTANCES: BUT I AM HEARTENED BY BRAZIL'S CLEAR DETERMINATION TO RESOLVE ITS PROBLEMS CONSTITUTIONALLY. I REMEMBER WITH GREAT PLEASURE MY OWN VISIT TO BRAZIL EARLIER THIS YEAR. I SEND YOU MY BEST WISHES FOR THE TASK THAT LIES BEFORE YOU.

ENDS

2. THERE WILL BE NO SIGNED ORIGINAL.

HURD

YYYY

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PS/MR GAREL-JONES
SIR J COLES
MR BEAMISH

ADDITIONAL 1

PS/PM

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T222B/92

RESTRICTED

Foreign &
Commonwealth
Office

London SW1A 2AH

5 October 1992

Dear Stephen,

Acting President of Brazil

The Brazilian Congress voted on 29 September for the impeachment of President Collor for alleged corruption. His Vice-President, Itamar Franco has taken over as Acting President.

Itamar Franco is expected to remain as Acting President until the Senate finds President Collor guilty (as seems likely) or the President resigns. He is then likely to be confirmed in office for the remainder of Collor's term (until 1994).

We recommend that the Prime Minister send a message to Itamar Franco. This would demonstrate our support for resolving Brazil's problems constitutionally and help encourage Brazil towards financial and economic reform. Delaying a message until Itamar Franco formally assumed the Presidency would lessen its impact.

I enclose a draft telegram to Brasilia.

Yours ever,

Stephen Smith

(J S Smith)
Private Secretary

Stephen Wall Esq
10 Downing Street

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FM FCO
TO IMMEDIATE BRASILIA
TELNO
OF 021625Z OCT 92

CONGRATULATORY MESSAGE TO THE ACTING PRESIDENT

1. Please pass the following message from the Prime Minister to Acting President Itamar Franco at the earliest opportunity.

Begins: My warmest respects as you become Brazil's Acting President. You take over the Presidency in difficult circumstances: but I am heartened by Brazil's clear determination to resolve its problems constitutionally. I remember with great pleasure my own visit to Brazil earlier this year. I send you my best wishes for the task that lies before you.
Ends.

HURD

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SIR JOHN COLES
MR BEAMISH
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A/FOREIGN/BRAZIL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 May 1992

LETTER FROM THE PRESIDENT OF BRAZIL: OLYMPIC GAMES, 2000

Thank you for your letter of 7 May enclosing a reply from the Prime Minister to President Collor's letter advertising the merits of Brasilia as host to the Olympic Games in the year 2000.

Although I do not feel strongly about it, I am slightly uneasy about a reply which appears to invite the Brazilians to lobby the British members of the IOC in support of Brasilia's cause. Given that President Collor's letter is presumably a "round robin", could the FCO simply not send a third person reply to the Brazilian Embassy, saying that the letter has been passed on, and drawing attention to the fact that Manchester is also a candidate.

If you are content with that, perhaps you could go ahead on that basis.

I am sending a copy of this letter to Richard Shaw (Department of the Environment) and to Nicholas Holgate (Department of National Heritage).

(J. S. WALL)

S.L. Gass, Esq.,
Foreign and Commonwealth Office.

GR to SCAN

Foreign & Commonwealth Office

London SW1A 2AH

7 May 1992

Dear Stephen,

Letter from President of Brazil: Olympic Games, 2000

The enclosed letter from President Collor has been forwarded by the Brazilian Embassy in London. Although dated 9 March it did not reach this Office until the beginning of April. The letter asks the Prime Minister to support Brasilia's bid to hold the 2000 Olympic Games.

The decision as to which country will host the 2000 Games will be taken by the International Olympic Committee in September 1993. The IOC has two voting British members, HRH The Princess Royal GCVO and Mrs M A Glen Haig CBE. We have no influence on the way they cast their votes although I understand both are very strong supporters of the Manchester bid.

Brasilia's chances of holding the Games do not look good. Alongside Manchester, both Sydney and Peking appear to be favourites although Istanbul, Milan, Berlin and Tashkent are also contenders.

I am copying this letter to Richard Shaw (Department of Environment) and Nicholas Holgate (Department of National Heritage).

However,

(S L Gass)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

TG1ACU

a f melo

SCANNED

DRAFT REPLY FROM PRIME MINISTER TO:

His Excellency Fernando Collor de Melo
President of Brazil

OLYMPICS IN 2000

Thank you for your letter of 9 March, about Brasilia's bid to hold the Olympics in 2000.

I understand that the International Olympic Committee will take the decision on the venue for the 2000 Games when they meet in September 1993. My hope is, of course, that Manchester will be chosen as the venue for these Games and I have put my support strongly behind their bid. However, the British members of the International Olympic Committee are independent and do not take direction from the Government. I am sure that in making their decision they will take into account the facilities that all the candidates offer as a venue for a large-scale event such as the Olympic Games .

TG1ACV

BRAZILIAN EMBASSY

No. 44
ADOC

The Brazilian Embassy presents its compliments to the Foreign and Commonwealth Office and has the honour to forward the enclosed envelope containing a letter from His Excellency President Fernando Collor de Melo addressed to His Excellency The Prime Minister, the Right Honourable John Major.

2. The Embassy would appreciate that the Foreign and Commonwealth Office make the said correspondence arrive at its high addressee.

The Brazilian Embassy avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurance of its highest consideration.

London, March 31st, 1992

BRAZILIAN EMBASSY

No. 14
ADOC

The Brazilian Embassy presents its compliments to the Foreign and Commonwealth Office and has the honour to forward the enclosed envelope containing a letter from His Excellency President Fernando Collor de Melo addressed to His Excellency The Prime Minister, the Right Honourable John Major.

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The Brazilian Embassy avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurance of its highest consideration.

London, March 31st, 1992

PAULO TARSO FLECHA DE LIMA
Brazilian Ambassador
32, Green Street, London W1Y 4AT
26th March, 1992

R27/3 Via PS/FCO
PS/Pres, FCO
w/ file

The Rt. Hon.
John Major, M.P.,
Prime Minister,
10, Downing Street,
London, S.W.1.

Dear Prime Minister JM

It was good of you to send me a copy of the letter you had written to President Collor about the extension of my stay as Ambassador in London, and I felt honoured by your references to me.

I was also greatly touched by the personal note you sent me. Gestures such as these are what have given me such special pleasure during my tour of duty here.

I send you my warmest thanks, and sincere good wishes.

Yours ever

Paulo Tarso Flecha de Lima

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

17 March 1992

Dear Ambassador,

I was delighted to get your President's message with the excellent news that you have been asked to stay on in London. I thought you might like to see a copy of the reply which I have sent to President Collor.

We are so pleased that you will be remaining with us.

Yours sincerely,

John Major

His Excellency Senhor Paulo Tarso Flecha de Lima

SUBJECT
MASTER
OPS
FILED ON:

cc FCO
Ambassador
de Lima

10 DOWNING STREET
LONDON SW1A 2AA

BRAZIL: Rels Sept 82

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.74/92

17 March 1992

Your Excellency,

Thank you for your message of 9 March letting me know that Ambassador Paulo Tarso Flecha de Lima will be staying on as our Ambassador.

If I may say so, this is excellent news. He has been a first rate Ambassador for your country and a good friend to ours as well. So you do us a great honour in asking him to stay and we are delighted.

I look forward to seeing you in the next few months.

Yours sincerely,
John Major

His Excellency Senhor Fernando Collor

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 March 1992

BRAZILIAN AMBASSADOR IN LONDON: MESSAGE FROM PRESIDENT COLLOR

Thank you for your letter of 12 March about the decision of the Brazilian President to extend the tenure of the Brazilian Ambassador in London.

The Prime Minister has decided to reply and I enclose the signed original of his letter to President Collor. I should be grateful if you could arrange for it to be delivered.

I also enclose, for information, a copy of the letter which the Prime Minister has sent to Ambassador Paulo Tarso Flecha de Lima.

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Foreign &
Commonwealth
Office

London SW1A 2AH

12 March 1992

Dear Stephen,

Brazilian Ambassador in London :
Message from President Collor

The Brazilian Ambassador has sent us a letter to the Prime Minister from President Collor (copy and translation enclosed). President Collor tells the Prime Minister of his decision to extend the Brazilian Ambassador in London, exceptionally, beyond his retirement date. President Collor ascribes this decision to the importance he attaches to relations between Brazil and the UK.

The decision of President Collor is exceptional. The Brazilian Ambassador has asked to call on the Foreign Secretary or even the Prime Minister. We do not recommend a call or, in the run up to the Election, bothering the Prime Minister with a reply to the President. We propose to ask our Ambassador in Brazilia to thank the President's office for the message and to tell them that the decision has been welcomed by British Ministers, who look forward to continuing to work closely with the Brazilian Ambassador, on UNCED and other important issues.

Yours ever,

R. Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

Official Translation

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T68D/92

BRAZILIAN EMBASSY

SUBJECT MASTER

~~Filed on:~~

Brasília, 9th March, 1992

The Rt. Hon.
John Major, MP.,
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland

My dear Prime Minister and Good Friend,

It is with pleasure that I address Your Excellency to acquaint you of the fact that the City of Brasília has formally presented to the International Olympic Committee its candidature as the site for the Olympic Games in the year 2000.

Founded in 1960, Brasília is a city which, by reason of its modernity and practical characteristics, offers unique conditions for hosting large-scale events, such as the Olympic Games.

In the year 2000, Brasília will celebrate the 40th anniversary of its foundation, and Brazil will be commemorating the Fifth Centenary of the arrival on its coast of the expedition led by the Portuguese navigator, Pedro Alvares Cabral. It will, therefore, be a very special time for us Brazilians, which would gain in magnitude if we were to host the Olympic Games on Brazilian soil.

The Olympiad of the year 2000 coincides with the New Millennium. Nothing could be more fitting than that Brasília, Capital of Hope, and declared by UNESCO to be part of the Cultural Heritage of Humanity, should gather within it, at that moment, representatives from all nations in a brotherhood of hope for a propitious future.

Official Translation

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T68D/92

BRAZILIAN EMBASSY

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The candidature of Brasília is wholeheartedly endorsed by the Brazilian Government. I would very much like to count on Great Britain to support this candidature as a second option after Manchester.

I avail myself of this opportunity to renew the assurance of my highest consideration.

Fernando Collor
President of the Federative Republic of Brazil

STOPPED

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STOPPED

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PRIME MINISTER'S
PERSONAL MESSAGE
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The Olympiad of the year 2000 coincides with the New Millennium. Nothing could be more fitting than that Brasília, Capital of Hope, and declared by UNESCO to be part of the Cultural Heritage of Humanity, should gather within its walls, at that moment, representatives from all nations in a brotherly spirit of hope for a propitious future.

Official Translation

PRIME MINISTER'S PERSONAL MESSAGE
SERIAL No. T68D/92

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SUBJECT MASTER

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Fernando Collor
President of the Federative Republic of Brazil

SUBJECT
MASTER
OPS
FILED ON:

Unofficial translation of a message received on 9th March 1992 from Senhor Fernando Collor, President of the Federative Republic of Brazil to The Rt. Hon. John Major MP, Prime Minister of the United Kingdom of Great Britain and Northern Ireland.
(Original text will follow)

Dear Prime Minister and Friend,

It is with pleasure that I write to inform you of a decision I have just taken, and which I consider to be relevant to the quality of the diplomatic dialogue which exists today between our two countries.

In a mesure unprecedented in the tradition of the Brazilian diplomatic service, Ambassador Paulo Tarso Flecha de Lima, although formally retiring as a career diplomat, will continue to carry on his present duties at the Court of St. James. The significance of this exceptional decision will convey to you the high level of importance I give to the relations between Brazil and the United Kingdom.

After more than 36 years as a career diplomat Ambassador Flecha de Lima is held in a very high regard for the distinguished service he has rendered to my country in many fields. At this present moment, when Brazil is taking courageous steps towards economic modernization, and towards an active presence within the international community, I judged I could not dispense with the collaboration that Ambassador Flecha de Lima, with his professional and personal qualities, has given my Government in London. By his staying on at his post, I can rest assured of the direction and the substance of relations between Brazil and the United Kingdom.

Thus remaining in London, as he does, in special circumstances that highlight his distinguished

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T685/92

of the direction and the substance of relations between Brazil and the United Kingdom.

Thus remaining in London, as he does, in special circumstances that highlight his distinguished record in the Brazilian diplomatic service, Ambassador Flecha de Lima will carry on his duties as my personal representative at the Court of St. James and in this capacity will continue faithfully to convey to you the views of my Government.

I avail myself of this opportunity to renew to you, Mr Prime Minister, the expression of my highest consideration and special kind regards.

Fernando Collor

Brasília, em 6 de março de 1992.

A Sua Excelência o Senhor
John Major,
Primeiro-Ministro do Reino Unido da
Grã-Bretanha e da Irlanda do Norte.

Primeiro-Ministro, estimado amigo.

Com prazer trago ao conhecimento de Vossa Excelência decisão que acabo de tomar e que estimo relevante para a qualidade do diálogo diplomático hoje existente entre nossos dois Governos.

Numa medida sem precedentes na tradição do serviço diplomático brasileiro, o Embaixador Paulo Tarso Flecha de Lima, que formalmente se aposenta do quadro permanente do Ministério das Relações Exteriores, será mantido em suas atuais funções na Corte de Saint James. O caráter excepcional dessa decisão dá a Vossa Excelência a medida da importância que atribuo às relações do Brasil com o Reino Unido.

Em seus mais de 36 anos de carreira diplomática, o Embaixador Flecha de Lima destacou-se por uma admirável folha de serviços prestados ao país. No momento em que o Brasil se lança

FC

FERNANDO COLLOR
Presidente da República Federativa do Brasil

corajosamente num esforço de modernização econômica e de presença ativa na comunidade internacional, entendi que não poderia prescindir da colaboração que, com suas qualidades pessoais e profissionais, o Embaixador Flecha de Lima tem prestado a meu Governo em Londres. Sua permanência no posto deixa-me seguro quanto ao rumo e à substância das relações do Brasil com o Reino Unido.

Mantido portanto em suas funções, em circunstâncias que o distinguem no serviço diplomático brasileiro, o Embaixador Flecha de Lima continuará a ser perante Vossa Excelência meu representante pessoal e o intérprete fiel do pensamento do meu Governo.

Aproveito a oportunidade para renovar a garantia da mais alta consideração com que me subscrevo,

de Vossa Excelência, com especial apreço,

F. Collor de Mello

BRAZILIAN EMBASSY

Unofficial translation of a message received on 9th March 1992 from Senhor Fernando Collor, President of the Federative Republic of Brazil to The Rt. Hon. John Major MP, Prime Minister of the United Kingdom of Great Britain and Northern Ireland.
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I avail myself of this opportunity to renew to you, Mr Prime Minister, the expression of my highest consideration and special kind regards.

Fernando Collor

Brasília, em 6 de março de 1992.

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FERNANDO COLLOR
Presidente da República Federativa do Brasil

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Aproveito a oportunidade para renovar a garantia da mais alta consideração com que me subscrevo,

de Vossa Excelência, Com especial apreço,

F. Collor de Mello

Foreign &
Commonwealth
Office

London SW1A 2AH

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Prime Minister

4 February 1992

This is basically just a photocall but he will want to hear from you a message of encouragement for Brazil pursuit of anti-inf programme. JS 26/2

Dear Stephen,

Call on the Prime Minister by the Brazilian Minister of the Economy

Senor Moreira will call briefly on the Prime Minister at 10.45 on 5 February for a photocall. You asked for a short brief.

Senor Moreira has been Minister for the Economy since May 1991: he replaced Ms Cardoso de Mello whose confrontational style and identification with the draconian economic policies originally pursued by President Collor made her a liability. Senor Moreira's approach has been more gradual. He is in Europe to attend the World Economic Forum in Davos. He will be calling on the Chancellor of the Exchequer.

Brazilian Economy

President Collor inherited an economy in a dire condition. His initial shock tactics aimed at stabilising inflation and restoring growth failed. Partly this was due to their extreme unpopularity (the measures included virtual confiscation of some bank accounts) and partly to his lack of a majority in Congress. President Collor has now embarked on a less dramatic approach aimed at a tight fiscal policy and reducing inflation (which is about 23 percent a month compared with an average in Latin America of about 20 percent a year). However reform is hampered by the fact that the constitution contains a range of provisions which tie the government's hands on the economy: for example, by conferring life time tenure on public servants and allowing banking secrecy which permits tax evasion on a large scale. Reform of the constitution can of course be blocked by Congress.

Nevertheless in January Brazil agreed to a standby arrangement which foresees a range of stablisation measures. First steps towards economic liberalisation have been taken and a privatisation programme is gaining momentum.

Brazil's debt of over $100 billion is the largest in the developing world. President Collor hopes to conclude a Brady

reduction deal this spring. Paris Club rescheduling is planned to take place this month. The Prime Minister may wish to say;

- glad standby arrangement approved by IMF Board. Important that IMF programme targets are met

- welcome government's attempts to introduce liberalisation of economy, especially in trade and privatisation.

Mercosur

In 1991 Argentina, Uruguay, Paraguay and Brazil agreed to set up a common market known as Mercosur. The aim is to eliminate tariff barriers by the end of 1994. The aims are ambitious and will be hampered by the difference in scale between the economies of the four countries and the lack of complimentarity between them.

The Prime Minister may want to ask Senor Moreira how he sees this developing.

Bilateral Relations

There are no important difficulties. Collor visited Britain as President-Elect in 1990 and the Prince of Wales visited Brazil in 1991. The balance of trade is heavily in Brazil's favour (in 1990 Britain exported £328 million worth of goods to Brazil and imported £719 million, mostly raw materials). The Prime Minister is due to visit Brazil for the UN Conference on Environment and Development in June.

The Prime Minister may wish to underscore the importance he places on a successful conclusion to UNCED.

I am copying this letter to Jeremy Heywood (HM Treasury) and Stephen Speed (DTI).

Yours ever,

(S L Gass)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

MOREIRA, MARCILIO MARQUES

Appointed Minister for the Economy, May 1991.

Born in 1931 in Rio de Janeiro.

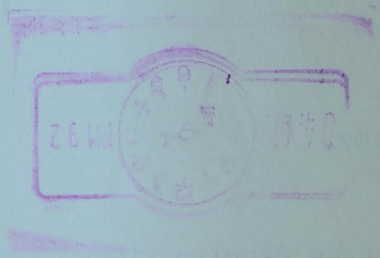
Graduated in Law from the University of Rio de Janeiro (1957), and in diplomacy from the Instituto Rio Branco in 1954. Master in Political Sciences from the University of Georgetown, USA (1963). Lectured International Law at several universities including Instituto Rio Branco from 1956-80.

Joined MFA in 1954. Only post abroad was Washington, as Third and Second Secretary. Became Adviser to the Minister for Finance (San Tiago Dantas office) in 1963, and then Adviser for International Affairs of the BNDE. In 1968 became President of the Company for the Community Development of the Guanabara State - CODESCO. Left the service in 1968, being elected Vice-President of the UNIBANCO conglomerate, post which he held until 1983, when he was elected a member of the Administrative Council of UNIBANCO. From August 1985-January 1986 served in the Work Group created by Sarney to study a new system of housing financing. In November 1986 he was appointed Brazilian Ambassador to Washington.

Took over the Ministry of the Economy following the departure of Ms Zelia Cardoso de Mello, whose confrontational style had alienated support for President Collor's economic policies. His task has been to restore confidence at home and abroad, to implement a tough economic programme without introducing further shock therapy, and to liberalise the economy. In view of President Collor's weak support in Congress, he also needs to win congressional approval for the government's economic measures.

Has published a number of books and articles on political science, San Tiago Dantas and art.

Married. Speaks English.



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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

3 February 1992

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T43/92

Your Excellency,

It was good of you to send me details of recent legislation demarcating a homeland for the Yanomami people, whose lifestyle and customs have aroused so much interest in the United Kingdom.

I congratulate you on what is a particularly fitting way to celebrate the International Year of the Indigenous People.

Yours sincerely,

John Major

His Excellency Senhor Fernando Collor

C

Foreign &
Commonwealth
Office

London SW1A 2AH

30 January 1992

Dear Stephen,

with DSW's

Yanomami Indians: Letter from President Collor

President Collor of Brazil wrote to the Prime Minister on 23 December telling him of the establishment of a permanent reserve for the Yanomami people whose plight has been extensively covered by the media here.

The decision to demarcate this area was not an easy one for the President to take in the face of opposition from the military and the Governor of Amazonas, in whose State part of the reserve is located. I enclose a draft reply to President Collor.

Yours ever,

(S L Gass)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

PL type.

Draft letter from the Prime Minister

TO: President Fernando Collor
President of the Federative Republic of Brazil

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I congratulate you on what is a particularly fitting way to celebrate the International Year of the Indigenous People.

KW

CPC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 January 1992

Dear Simon,

VISIT BY THE BRAZILIAN MINISTER OF THE ECONOMY: 5 FEBRUARY

Thank you for your letter of 13 January about the visit of the Brazilian Minister of the Economy, Mr Marcilio Moreira.

The Prime Minister understands the importance of Mr Moreira's visit but I am afraid there is virtually no time available on Wednesday 5 February, when the Prime Minister is anyway seeing the President of Peru.

The Prime Minister imagines that the Brazilian Minister will be calling on the Chancellor of the Exchequer. The Prime Minister is going out to lunch at about 1300 on Wednesday 5 February. If the Chancellor's meeting with the Brazilian Minister could take place just before then in No 11, could the Chancellor bring Mr Moreira through for a handshake and a photocall in the Front Hall just before 1300? Perhaps the Treasury could explore the possibilities with Sandra Phillips.

I am copying this letter to Phillip Ward (Department of the Environment) and, with references, to Jeremy Heywood (HM Treasury).

Yours,

Stephen

J S WALL

Simon Gass Esq
Foreign and Commonwealth Office

6

Foreign &
Commonwealth
Office

London SW1A 2AH

13 January 1992

Dear Stephen,

Possible call on the Prime Minister by the Brazilian Minister of the Economy

I understand that the Brazilian Ambassador will be writing to you formally to propose a call on the Prime Minister by the Brazilian Minister of the Economy, Mr Marcilio Moreira, when the latter is in Britain on 5 February. The Brazilians placed considerable importance on a call on the Prime Minister in advance of his attendance at the UNCED conference in Rio de Janeiro in June this year. The Prime Minister has more than once been unable to meet the Brazilian President while in London.

When the Brazilian Ambassador mentioned this to Mr Garel-Jones on 9 January, Mr Garel-Jones pointed out the domestic pressures on the Prime Minister's diary in the pre-election period. The Ambassador took this fully on board but was keen to stress that a 5 or 10 minute slot, followed by a photo opportunity would be more than sufficient.

This is indeed a classic candidate for a ten-minute call with camera. There would be some value in such a call.

I am copying this letter to Philip Ward (DOE).

Yours ever,

(S L Gass)
Private Secretary

J S Wall Esq
10 Downing Street

MINISTER MARCILIO MARQUES MOREIRA

BACKGROUND INFORMATION

Mr Marcilio Marques Moreira, the Brazilian Finance Minister, will be visiting London on the 5th of February. It will be his first official visit to London since he took up office last May.

Mr Moreira was a career diplomat before he traded the Foreign Office for the finance world as a senior International Vice-President of one of Brazil's leading banking groups for almost two decades. In 1986 he was appointed Ambassador to Washington because he had both the diplomatic and the banking background and was rightly thought to be a good choice for dealing with the debt issue. He remained in this capacity until last May, when President Collor asked him to look after the country's economy as a whole.

His appointment as Minister of the Economy represented a very significant change. Seven months later, I think that we can say that he has some outstanding achievements to his credit: Brazil has reached an agreement with the private banks over the arrears and is again servicing its debt. Moreover, it is probably on the verge of an agreement with the banks over its total debt and has

successfully resumed talks with the IMF. A letter of intent for a stand-by agreement is to be laid before the Board of the Fund in the next few days with very good chances of being approved. As for the Paris Club, talks are already scheduled and hopefully by June this item on our economic agenda will also be in its final stages.

It has indeed been quite a change. Internally we now have sound and old-fashioned mainstream economic policies: a very tight monetary policy, a budget much more under control, a privatization programme under way and fiscal reforms approved by the Congress that will mean the end of the budget deficits which we had for sometime thought we would never be without. Deregulation and a free market approach combined with the above-mentioned policies are beginning to yield results. The inflation rate, although still very high by any standards, has begun to fall. Very slowly and painfully (because of the recession the new policies have brought about), but persistently, which is something that we are not used to seeing.

The latest news from Brazil shows that the business community, in spite of the recession and the very high interest rates, is no longer as gloomy as it was some months ago and seems confident that the new approach will put Brazil back on track.

PAULO TARSO FLECHA DE LIMA
Brazilian Ambassador

32, Green Street,London, W1Y 4AT
10th January, 1992

Mr. Stephen Wall,CMG,LVO.,
Private Secretary to the
Prime Minister (Overseas Affairs),
Prime Minister's Office,
10, Downing Street, London,SW1A 2AA.

Dear Stephen,

I raised with Tristan Garel-Jones the issue of the forthcoming visit to London of our Minister of Economy on the 5th February, and the expectation of my Government that this visit will be a very successful one.

2. You are probably following what is happening in my country, especially the strenuous efforts being made by the Government of Brazil to curb our chronic inflationary disease and the abnormal growth of State participation in the country's affairs. It has been a very tough fight because inflation has become a kind of addiction and the size of State participation has in itself created a very resilient crust of vested interests that challenge any call for modernization. In spite of these odds, however, the Government is gaining important victories. We are now fully engaged in a very ambitious privatization programme, and inflation,for the first time in decades, is showing a downward trend without resorting to the so-called "heterodox shock treatment". Thus, Mr. Moreira's visit is, to use banking jargon, part of a "road show" round the major G-7 capitals. He has already been in Tokyo and Washington. Here he will be meeting the Chancellor of the Exchequer, Mr. Garel-Jones, the Governor of the Bank of England, and other important personalities in both political and economic circles.

3. Mr. Moreira's visit,however, could really be a very important turning-point, if we could ensure that he has a chat, however brief, with the Prime Minister. The repercussion in Brazil would be enormous, and would be a great boost to the self-confidence of

150 million Brazilians to know that the Prime Minister of the United Kingdom, Chairman of the Group of Seven, took pains to be briefed directly on the recovery programme of Brazil. I know that, at the present time, Mr. Major is understandably restricting to a great extent his international engagements. I venture, nevertheless, to put before you this request for a meeting with the Prime Minister, however brief it may be. I also know that the Prime Minister, because of his innate courtesy and politeness, does not favour photo opportunities or very quick and rushed meetings with foreign dignitaries, but perhaps you could bring to his attention some of the arguments that, in my opinion, justify an exception being made in favour of Mr. Moreira:

a) he is the Minister of the Economy, and, although not formally, his office carries powers similar to those of the Prime Minister;

b) UK and Uk-based institutions, both public and private, are the second largest creditors of Brazil, which is, as you know, the leading debtor in the Third World;

c) Mr. Major is preparing to visit Brazil himself this year, and his interest in our country would touch a very sympathetic chord in our public opinion through Brazilian television, which is seen at its "prime time" by 90 million people. Mr. Major, together with Herr Kohl, is a leading promoter of the famous "Pilot Project on the Rain Forests". This will be the first attempt, by a group of industrialized countries, to address collectively, and with a significant economic contribution, the very momentous issue of environment conservation. In this connection, Britain has been a pioneer. The first Protocol which Brazil signed with an industrialized country on environment conservation was the "Green Protocol" together with Mr. Chris Patten.

4. And last, but not least, the fact that a sympathetic reception by the Prime Minister to the economic programme of my country would also help to sanitize the international economic environment, because it would signify the normalization of our relations with the international financial community.

5. Mr. Moreira's predecessor was received

by Mrs. Thatcher when she visited London, and Mr. Major, as Chancellor, although not being able to receive her for talks, managed to find a slot in his tight schedule to shake hands with her.

I hope that my arguments, together with those of my good friend, Tristan Garel-Jones, will give you grounds to support this request, which, I earnestly consider to be important.

Yours ever

Sandy Hamilton

cc PC

PS/N°10.

M' Murray, LAD for advice

PS
PS/Mr Gerald Jones
PS/Paus
Mr Beamish
Head News
Special Advisers

No. 69

December 23rd. 1991.

30/xii

Sir.

I have the honour to forward to you herewith the unofficial translation of a letter addressed to The Right Honourable John Major, Prime Minister, by President Fernando Collor.

2. The original of the letter will follow shortly.

I avail myself of the opportunity to renew to your Excellency the assurance of my highest consideration.

Paulo Tarso Flecha de Lima
Ambassador

The Rt Hon. Douglas Hurd, CBE, MP
Secretary of State for Foreign and Commonwealth Affairs

AA

c: lima

(KK)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 December 1991

Thank you very much for your note covering your letter to the Prime Minister. I have passed on your letter to the Prime Minister and I know that he will be writing to you.

(J.S. WALL)

His Excellency Senhor
Paulo-Tarso Flecha de Lima

KW

R13/12

PAULO TARSO FLECHA DE LIMA
Brazilian Ambassador

13.12.91

Dear Stephen,

Please find attached, a letter I am forwarding to the Prime Minister through your good hands.

Thanking you in advance,

I remain, yours sincerely

PAUL NATHAN-RIO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 303c/91

BRAZILIAN EMBASSY

UNNOFFICIAL TRANSLATION

Brasília, 9th December, 1991.

The Right Honourable
John Major, M.P.
Prime Minister of Great Britain
and Northern Ireland

My dear Prime Minister,

I have great pleasure in informing you that on the 15th of November last, on the 102nd anniversary of the Proclamation of the Republic, an area of 9.419.108 hectares traditionally inhabited by the Yanomami Indians was officially declared to be their permanent homeland. As I stated on that occasion, the area to be demarcated will provide not only a homeland for the Yanomami communities but also and chiefly the preservation of their way of life, entailing a space in which to fish, hunt, celebrate rituals and the right to circulate freely.

2. On the 29th of October I signed the legal ratification of 71 other indigenous areas, equivalent to 11.097.108 hectares. On that occasion my Government declared its intent to demarcate the remaining Indian areas by the 5th of October 1993, as laid down in the Federal Constitution.

3. The designation by the General Assembly of 1993 as the International Year of Tribal People will coincide with the accomplishment by the Brazilian Government of its great effort to protect

its indigenous population. The demarcation of their land will surely stand as the fittest contribution by Brazil to the celebration of the international year of indigenuous people.

4. Respect for human rights and the environment are the fundamental preocupation of my Government. The safeguarding of the indigenous population symbolizes the fulfilment of these aims, as the Indians closely identify with their land and live in harmony with Nature. The demarcation of all the Indian lands will mean apportioning and assuring them of safe and ample areas in which to afford them a dignified way of life and the preservation of their cultures and habits in accordance with their aspirations.

I take this opportunity to renew to you the assurances of my highest consideration.

Fernando Collor
President of the Federative Republic of Brazil

Brasília, em 09 de dezembro de 1991.

A Sua Excelência o Senhor
John Major,
Primeiro-Ministro do Reino Unido
da Grã-Bretanha e da Irlanda do Norte.

Senhor Primeiro-Ministro.

Tenho a grata satisfação de informar Vossa Excelência de que, em 15 de novembro último, data da comemoração do 102º aniversário da Proclamação da República, foi declarada de posse permanente dos indígenas Ianomamis a área de 9.419.108 hectares correspondente à terra por eles tradicionalmente ocupada. Conforme afirmei naquela ocasião, a extensão a ser demarcada destina-se a garantir não apenas os locais de residência das comunidades Ianomamis, mas também, e principalmente, assegurar a preservação de seu modo de vida, que exige espaço para pescar, caçar, celebrar os seus ritos e deslocar-se em paz.

2. Anteriormente, em 29 de outubro, assinei a homologação de 71 outras áreas indígenas, correspondentes a 11.097.108 hectares. Nessa ocasião foi anunciado o plano de meu Governo de demarcar as demais áreas indígenas até 5 de outubro de 1993, conforme determina a Constituição Federal.

FERNANDO COLLOR
Presidente da República Federativa do Brasil

3. A proclamação, pela Assembléia Geral, do Ano Internacional do Índio, em 1993, coincidirá com a realização desse enorme esforço do Governo brasileiro para a proteção de sua população indígena. A demarcação das terras indígenas será, certamente, a melhor contribuição brasileira para a celebração do Ano Internacional do Índio.

4. O respeito aos direitos humanos e ao meio ambiente constituem preocupação fundamental e prioritária de meu Governo. A defesa da população indígena simboliza a integração desses objetivos, pois os indígenas estão intimamente ligados a suas terras, em harmonia com a natureza. A demarcação de todas as terras indígenas representará destinar-lhes áreas amplas e seguras para garantir-lhes condições de vida dignas, preservar suas culturas, seus hábitos, de acordo com suas aspirações.

Aproveito a oportunidade para renovar a Vossa Excelência a garantia da minha mais alta consideração.

Com estima e apreço,

F. Collor -

Foreign &
Commonwealth
Office

London SW1 2AH

17 July 1991

Dear Stephen,

to end

Invitation to the Prime Minister to visit Brazil

Your letter of 3 July to me enclosing President Collor's reply to the Prime Minister's letter of 7 June suggested that no response was called for unless we thought that the Prime Minister might like to reply to the invitation to visit.

We believe that the Brazilians would expect a reply, even if it is less than an instant acceptance. I enclose a draft.

Yours ever,

(S L Gass)
Private Office

M Sass. FCO

J S Wall Esq
10 Downing Street

CMA

Draft letter from Prime Minister to:

His Excellency Senhor Fernando Collor
President of the Federative
Republic of Brazil

I was very pleased to receive your letter of 26 June in which you kindly invited me to pay a visit to Brazil. Let me say how happy I should be to do that. Quite apart from having the opportunity of seeing something of the great variety of Brazil, there is much for us to do together, not merely in the contect of Anglo/Brazilian relations but also in relation to the wider issue of the environment. It is difficult at the moment to see many months in advance, but I very much hope to be able to take up your invitation at some point in the future.

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UNCLASSIFIED
FM BRASILIA (C O R R E C T E D V E R S I O N)
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AND TO IMMEDIATE MAFF, DTI
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INFO ROUTINE OTTAWA, CANBERRA, WASHINGTON, BUENOS AIRES
INFO ROUTINE SANTIAGO, BOGOTA, BUDAPEST, WARSAW, BANGKOK, MONTEVIDEO
INFO ROUTINE JAKARTA KUALA LUMPUR, WELLINGTON, SUVA, ALL EC POSTS
INFO ROUTINE RIO DE JANEIRO, SAO PAULO, TOKYO, SEOUL, UKDEL OECD

CORRECTED VERSION

MY TEL NO 226 (NOT TO ALL): CAIRNS GROUP MEETING IN BRAZIL

SUMMARY

1. CAIRNS GROUP MESSAGE TO G7 CONCENTRATES ON REFORM OF SUBSIDIES. FEARS OF ANOTHER GATT BREAKDOWN. SCEPTICISM OVER NEW EC SUBSIDIES PLAN.

DETAIL

2. THE CAIRNS GROUP CONCLUDED ITS MEETING IN MANAUS ON 9 JULY WITH A MESSAGE ADDRESSED TO THE G-7 COUNTRIES DUE TO MEET IN LONDON MON 15 JULY. THE 13 POINT MESSAGE CONCENTRATES ON THE CONSEQUENCES OF A FAILURE OF THE GATT ROUND. THE MAIN POINTS ARE AS FOLLOWS:

A. THE CONTINUATION OF AGRICULTURAL PROTECTIONISM HAD INTENSIFIED TENSIONS IN INTERNATIONAL TRADE THIS YEAR. THIS HAD IMPEDED THE PAYMENT OF EXTERNAL DEBTS BY DEVELOPING COUNTRIES, UNDERMINED THEIR ECONOMIC DEVELOPMENT, REDUCED EMPLOYMENT OPPORTUNITIES AND STIMULATED 'PREDATORY' LAND CULTIVATION PRACTICES. THE POLICY OF AGRICULTURAL SUBSIDIES PRACTISED ESPECIALLY BY THE EC, US, JAPAN AND KOREA WAS IN LARGE PART TO BLAME FOR THIS SITUATION. SINCE THE BREAKDOWN OF THE GATT TALKS IN DECEMBER 1990, AGRICULTURAL SUBSIDIES IN OECD COUNTRIES HAD INCREASED BY 12 PERCENT IN RELATION TO 1990.

B. THE G7 COUNTRIES MUST GIVE AN IRREVERSIBLE UNDERTAKING TO MAKE THE FOLLOWING REFORMS:

I. SUBSTITUTE QUANTATIVE IMPORT RESTRICTIONS, SUCH AS QUOTAS, WITH TARIFFS,

II. REDUCE SIGNIFICANTLY EACH YEAR THE LEVEL OF SUBSIDY FOR INTERNAL TRADE AND PRODUCTION,

III. REDUCE ANNUALLY THE LEVEL OF SUBSIDY FOR AGRICULTURAL EXPORTS, WITH THE AIM OF ELIMINATING THESE ALTOGETHER,

IV. INTRODUCE LEGISLATION TO REMOVE UNJUSTIFIABLE SANITARY TRADE BARRIERS.

C. THE RICHER COUNTRIES SHOULD ALLOW GREATER LEVELS OF IMPORTS FROM DEVELOPING COUNTRIES. BUT FUTURE REDUCTIONS IN SUBSIDIES AND IMPORT BARRIERS MAY BE IMPLEMENTED MORE SLOWLY BY THE DEVELOPING COUNTRIES.

3. ALTHOUGH THE MESSAGE (THE FULL TEXT OF WHICH IS BEING FAXED TO ECD(E)) DOES NOT QUOTE FIGURES, AUSTRALIAN TRADE AND DEVELOPMENT MINISTER NEAL BLEWETT HAS SAID THAT THE PROPOSAL MADE BY THE CAIRNS GROUP TO THE GATT TALKS LAST YEAR REMAINED UNCHANGED. THEIR AIM WAS FOR SUBSIDY REDUCTIONS OF 90 PERCENT FOR EXPORTS, 75 PERCENT FOR PRODUCTION AND 75 PERCENT FOR IMPORT BARRIERS. THIS SHOULD BE ACHIEVED IN TEN YEARS, USING 1986 AS THE BASE. CANADA CONTINUES TO BE THE DISSENTING VOICE IN THE GROUP, SEEKING A 100 PERCENT CUT IN EXPORT SUBSIDIES. (AS A MEMBER OF BOTH THE CAIRNS GROUP AND G7, THE CANADIAN DELEGATION APPARENTLY SPENT MUCH TIME DENYING RUMOURS THAT CANADA WOULD SHORTLY LEAVE THE CAIRNS GROUP.)

4. THE MEETING'S PRINCIPAL PREOCCUPATION WAS THAT THE GATT ROUND WOULD AGAIN BREAK DOWN AND THAT, WITH ELECTIONS IN THE US AND EUROPE IN 1992, IT WOULD THEN BE IMPOSSIBLE TO INTRODUCE SUBSIDY REDUCTIONS IN THE FACE OF THE POWERFUL AGRICULTURAL LOBBIES, PARTICULARLY IN THE US. BLEWETT SAID THAT THIS WOULD GIVE THE GREEN LIGHT FOR ALL THE FORMS OF PROTECTIONISM WHICH HAD BEEN GROWING SINCE 1980, AND NOT JUST IN THE AGRICULTURAL AREA.

5. CANADIAN AND AUSTRALIAN REPRESENTATIVES AT THE MEETING SAID THAT THEY DID NOT BELIEVE THAT THE PLAN PUT FORWARD BY EC AGRICULTURE COMMISSIONER MCSHARRY TO REFORM THE EC'S SUBSIDY SYSTEM, USING AS A BASE A 35 PERCENT REDUCTION IN CEREAL PRICES OVER 3 YEARS, WOULD BE ACCEPTABLE TO THE FRENCH AND GERMAN GOVERNMENTS, EVEN THOUGH IT HAD BEEN APPROVED BY BRUSSELS.

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6. I SHALL TELEGRAPH FURTHER IF WE PICK UP ANY USEFUL COMMENTS FROM OUR CONTACTS HERE IN BRASILIA WHO ATTENDED THE MEETING.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 July 1991

Dear Simon,

BRAZIL

The Brazilian Ambassador called on me this morning and delivered the enclosed reply from President Collor to the Prime Minister's letter of 7 June. I do not think a response is called for unless you think that the Prime Minister ought to reply to the invitation to visit Brazil.

I told the Ambassador that the Prime Minister was very sorry to have missed the President. If the President was planning a further visit to Europe, I hoped the Ambassador would let us know in good time and that a meeting could be fixed.

I am copying this letter to Suma Chakrabarti (Overseas Development Administration).

Yours,

Stephen

J. S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office.

MRT

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T178A/91

SUBJECT MASTER
CPS
FILED ON:
BRAZIL : Visits of Pres Nov 81.

UNOFFICIAL TRANSLATION

Brasilia, 26th June, 1991.

The Right Honourable
John Major
Prime Minister of the
United Kingdom of Great Britain and Northern Ireland

Dear Prime Minister,

I was very pleased to receive your letter on the 7th June 1991, during my stop at London Heathrow Airport.

I found it encouraging the positive and lucid manner in which Your Excellency focused issues of great importance to Brazil, showing how strong are the links of understanding and mutual respect between our countries.

I fully share your conviction that the results of the seminar which took place on board the Royal Yatch "Britannia" were positive and that, as far as the environment is concerned, there is room for bilateral co-operation in the future on important issues. As for the external debt issue, I am also sure that our dialogue is inclined to open new and relevant channels of understanding between Brazil and the United Kingdom.

Encouraged by the sincere wish to reinforce Anglo-Brazilian co-operation in all fields and to continue our dialogue directly, I have the honour to invite you to pay an official visit to Brazil on a date to be agreed.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration and personal esteem.

Fernando Collor
President of the Federative Republic of Brazil

PRESIDENTE DA REPÚBLICA

Brasília, 26 de junho de 1991.

A Sua Excelência o Senhor
John Major,
Primeiro-Ministro do Reino Unido da
Grã-Bretanha e Irlanda do Norte.

Senhor Primeiro-Ministro.

Foi com particular satisfação que recebi a carta de Vossa Excelência, que me chegou às mãos em 7 de junho de 1991, durante minha breve passagem pelo aeroporto de Londres.

Pareceu-me encorajadora a maneira positiva e lúcida como Vossa Excelência enfocou temas de grande importância para o Brasil, em demonstração de que são firmes os laços de entendimento e respeito mútuo entre nossos países.

Compartilho inteiramente a convicção de que foram positivos os resultados do seminário no iate real "Britania" e de que, na área do meio ambiente, há importantes espaços de cooperação bilateral a serem preenchidos no futuro. Também no que se refere à questão da dívida externa, estou certo de que o diálogo tende a abrir novos e importantes canais de interação entre os dois países.

FC

JUN. 27 '91 11:37 MIN.RELACOES EXTERIORES-GABINETE 055 061226176? P. 02

Animado pelo sincero desejo de reforçar, em todos os campos, a cooperação Brasil-Reino Unido e de retomar com Vossa Excelência o diálogo direto, tenho grande prazer em estender-lhe convite para que realize visita oficial ao Brasil, em data a ser acordada.

Aproveito a oportunidade para renovar a Vossa Excelência a garantia da minha mais alta consideração e particular apreço

F. Collor -

TEL. 27 '91 11:28 MIN.RE ASES EXTERIORES-CABINETE PAG 001/001 P. 01

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T160/91

SUBJECT
MASTER
OPS
FILED ON:

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

6 June 1991

Dear Mr. President,

I regret that it was not possible to arrange a meeting on either of the dates which might have fitted in with your European itinerary. I should very much like to have talked to you again but am inescapably committed, out of London, on both days.

It would have been particularly valuable to me to have had the benefit of an exchange of views with you in advance of the London economic summit, when I am sure we shall be focusing on some of the major issues currently confronting the international community. On two of them, debt and the environment, some progress has been made since we met. On the latter, I hope that it will be possible for the G7 to take forward the Houston rainforest initiative in parallel with your implementation of environmental reforms, and should be interested to know how you see the pilot programme developing.

The environment will also be clearly in our sights for 1992. I know that your preparations as host country for the UNCED conference are well under way and am delighted to learn that, as a follow-up to the recent environmental seminar on HMY Britannia, our two countries are to set up a focus group as a means of maintaining and improving bilateral co-operation in the run-up to the Rio de Janeiro meeting. Our experts are already in contact with Professor Goldemberg on the prospects for the climate change negotiations to which we attach great importance. We are hopeful that progress on a draft convention can be made in time for

signature by June 1992. If you have any further thoughts on how we might work together, please do not hesitate to let me have them.

I have followed closely the results of the imaginative and courageous economic programme outlined during our meeting last year. The adjustments to the economy have clearly been even more painful than anticipated, but the experienced team which has now taken on the task will no doubt be able to build on the advances which have been made while continuing to tackle the vital problem of inflation.

I am sure that there will be further opportunities to build on the excellent relations between our two countries, exemplified by the recent successful visit to Brazil of The Prince and Princess of Wales. We much appreciated your generous hospitality and the excellent arrangements made for Their Royal Highnesses and for the large and varied group who accompanied them throughout their travels.

May I conclude by wishing you all the best for the success of your policies which hold so much promise for Brazil and by expressing the hope that there will be an opportunity for us to resume our dialogue in person.

Yours sincerely,
John Major

His Excellency Senhor Fernando Collor

Foreign &
Commonwealth
Office

London SW1A 2AH

5 June 1991

Dear Stephen

Simon Gass spoke to you about the possibility of President Collor of Brazil calling in at short notice to see the Prime Minister. The Prime Minister's full programme precluded this.

It would nonetheless be helpful to know what the Brazilians expect of the G7 Summit and the Prime Minister might like to write to President Collor in this sense. I enclose a draft.

Yours ever

Richard

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

SCANNED

3 June 1991

His Excellency Senhor Fernando Collor
President of the Federative Republic of Brazil

I regret that it was not possible to arrange a meeting on either of the dates which might have fitted in with your European itinerary. I should very much like to have talked to you again but am inescapably committed, out of London, on both days.

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importance. We are hopeful that progress on a draft convention can be made in time for signature by June 1992. If you have any further thoughts on how we might work together, please do not hesitate to let me have them.

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May I conclude by wishing you all the best for the success of your policies which hold so much promise for Brazil and by expressing the hope that there will be an opportunity for us to resume our dialogue in person.

Prime Minister

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cc PS/Chancellor
Sir Peter Middleton
Mr Wicks
Mr H P Evans
Mr Mountfield
Mr Sedgwick
Mr Halligan

Mr Pickering
Mr Powell
Mr Bolton
Mr Lightfoot
Sir Charles Powell (No 10)
Mr Bayne (FO)
Mr Crawford (BOE)
Mr Peretz (UKdel)

NOTE OF A MEETING HELD IN THE ECONOMIC SECRETARY'S ROOM, HM TREASURY, AT 11.15AM ON MONDAY, 28 JANUARY 1991

Present: Economic Secretary
Mr H P Evans
Mr J Halligan

Sr Paulo-Tarso De Lima - Brazilian Ambassador
Aide

The **Economic Secretary** welcomed the Brazilian Ambassador to the Treasury. The **Ambassador** explained that he had been instructed by his Government to find out the UK's stance with regard to Brazil's debt problems following the G7 meeting in New York last week. The Ambassador said that Brazil accepted that it had to come to terms with its creditors. Brazil was currently experiencing serious cash-flow problems but generally speaking they had remained up-to-date on their repayment obligations to the International Financial Institutions (IFIs) and were paying them $3½ billion per year. The Brazilian Government was not looking for confrontation with their commercial bank creditors but to co-operate with them in finding ways of dealing with the debt problem. Negotiations are moving ahead but were tough going. The difficulties largely arose due to the sheer amount of money involved.

The **Economic Secretary** said that the UK and the other G7 countries were keen to see Brazil restored to regular relations with its creditors. The key was to sort out the debt problem and the first step was for Brazil to negotiate seriously with commercial bank creditors. The Economic Secretary asked how the discussions, which took place last week, had gone. The **Ambassador** said that there had been a lot of "sourness" on the part of the banks. He thought that the banks appreciated that the Brazilian Government did not want awkward confrontations and are serious about sorting

UNCLASSIFIED

out the debt problem. But there are major political problems facing the Brazilian Government as it grapples with the debt issue. The President had been given a clear message of the political unpopularity of recent austerity measures by the results of the recent elections. Nevertheless, new fiscal measures have now been adopted to reduce the budget deficit. The Ambassador stated that the Government was very serious about economic reform and would pursue it.

This brought him to the main point of his visit. Brazil was very appreciative of the line that the UK took last year in the World Bank Board when it resisted the idea that disbursements under particular loans should be postponed, pending resolution of Brazil's disagreements with its commercial bank creditors. He would like an assurance that the UK would take the same position on further IFI lending to Brazil ie it should not depend upon progress with the commercial banks. Brazil was repaying the IFIs on schedule and so their lending policy should not be affected by the views of the commercial banks. He believed that the banks were putting pressure on G7 Governments to make such a link and he wanted an assurance that the UK Government would not seek to make such a link.

The Economic Secretary said that the UK shared the view of other G7 countries that there could be no further new lending to Brazil by the IFIs until some real progress had been made in the negotiations between the Government and the commercial banks. As the majority of Brazil's debt was with the banks it would not make sense for the IFIs to agree to new loans until they knew what would happen on the existing debt. The Ambassador said that this was very worrying. Brazil was paying the IFIs $3½ billion per year and this accounted for more than their annual surpluses. They were not in substantial arrears on these obligations. His Government did not see any case for curtailing new lending by the IFIs when their existing loans were being promptly serviced. The Economic Secretary explained that any new commitments would require an IMF programme to be agreed with the Brazilians. This would be impossible until there were clearer indications as to

what was likely to happen on the bank debt. For example, the IFIs would be reluctant to lend new money which may be used to service the existing bank debt. The Economic Secretary said that he would be interested to know the IMF team's perception of the situation when they return to Brazil in February. Generally IMF programmes have been helpful to debtors in the long term and they had been negotiated with East European countries eg Poland. Inevitably IMF programmes were a much more painful process for countries such as Poland compared with free market economies such as Brazil which had some 1st world characteristics. **Mr Evans** said that IMF programmes were often then followed by new World Bank lending and Paris Club rescheduling. Mexico had achieved debt restructuring and inflows of new money from both the public and private sector following their agreement. The same things would be potentially available for Brazil after an IMF programme had been agreed. But, a prior condition of this would be progress (not necessarily a signed agreement) with the commercial banks.

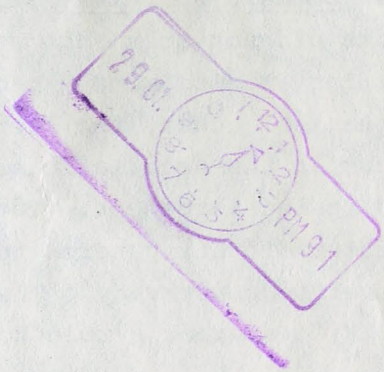
The **Ambassador** said that obviously negotiations with the banks was difficult as so much of the outstanding debt was with them. The effect of the UK position was that the banks had been given control over UK Government. The **Economic Secretary** said that this was not the position. The banks did not seek such an influence: they were only interested in getting their money back and not political discussion. He emphasised that the condition for further IFI help was real progress in the negotiations. This did not mean a formally signed and sealed agreement. There was also no question of the Government either dictating terms to the banks or giving them a veto over Government activity. The **Ambassador** appreciated that it was not the UK Government's role to intervene in the operations of banks.

The **Economic Secretary** said that all G7 members would be very constructive in their approach to Brazil, once progress with the banks had been made. The **Ambassador** said that he would keep in touch with Nigel Wicks and Huw Evans about what progress is being made.

Poland

The **Ambassador** said that Poland's debt with Brazil was some $2½ billion. Brazil was therefore very interested - as a creditor - in the outcome of recent G7 discussions on Poland. **Mr Evans** said that no agreement had been reached at G7: there were still some difficult negotiations ahead on both Poland and Egypt. No offer has yet been made to Poland and officials would need to meet again. The Paris Club would hopefully discuss Poland in March but this could well slip to April. The **Ambassador** remarked that Poland had aimed for a debt reduction of 80 per cent. **Mr Evans** said that this would be out of the question.

KEVIN SEDGWICK
Assistant Private Secretary



CBP
2077

BRAZILIAN EMBASSY

32, Green Street,
London, W1Y 4AT.
19th July, 1990

Charles Powell,Esq.,
Private Secretary to the Prime Minister,
10, Downing Street, London, S.W.1.

Dear Charles,

I wrote to you last week to express my thanks for your invaluable assistance in arranging the meeting with the Prime Minister, but I cannot fail to write again to convey my deep satisfaction with the way the meeting took place.

2. Not only did Mrs. Thatcher receive Miss Cardoso de Mello on a particularly busy day - not to say hectic - for the Cabinet after Mr. Ridley's resignation, but she also spent moretime on the meeting than originally planned. Morevoer, the contents of the meeting itself, the high degree of updated information the Prime Minister showed about Brazil and her genuine interest and enthusiasm for the progress achieved by our Government in its first four months were very much beyond my expectations - and indeed Minister Cardoso de Mello's.

3. I can assure you the Brazilian Minister has left London extremely happy with the results of her visit, and particularly delighted and impressed with the form and substance of her meeting with the Prime Minister. May I also say

/on

on a more personal basis that the echoes which I have had from Brasília tell me that President Collor himself was very pleased with Mrs. Thatcher's considerate gesture.

4. The visit was a success and much of it is owed to your most kind endeavours.

Yours sincerely,

Best personal regards

Paulo-Tarso Flecha de Lima
Brazilian Ambassador

Copies to: Mr Charles Powell (No 10)
Mr Stephen Wall (FCO)

BANK OF ENGLAND
LONDON EC2R 8AH

18 July 1990

E J W Gieve Esq
Principal Private Secretary to
the Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

Dear John

The Governor has asked me to send you the attached note for record of a telephone conversation he had yesterday with Bill Rhodes of Citibank about the Brazilian debt situation.

I think it is worth commenting that the feeling here is that Rhodes can sometimes be prone to exaggeration, especially on the side of gloom. Moreover, Citibank has a more exposed position on Latin American debt than many other major US banks and it is in their interests to try to keep secondary market values up. Nevertheless, we feel that there clearly are grounds for concern and think it would be desirable for the UK to use whatever influence we have to impress on the Brazilians the interests of all parties in maintaining a cooperative dialogue and not simply focussing on short-term financial advantage.

I am copying this letter to Charles Powell (No 10) and Stephen Wall (FCO).

Yours

Paul

P M W Tucker
Private Secretary
to the Governor

CONFIDENTIAL

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NOTE FOR RECORD

Copies to DGPS
Mr Quinn
Mr Crockett
Mr Barnes
Mr Latter
Mr Page
Mr Crawford
Mr Miles

BRAZIL

Bill Rhodes (Citibank) called the Governor today. Rhodes said that he had just returned from Brazil where he and John Reed had seen officials and also the President. Rhodes was very selectively briefing a few international financial figures around the world.

By way of background, Rhodes reminded the Governor that Brazil has reserves of some $8 bn, and arrears of some $5 bn or $6 bn (or $8 bn including Paris Club debts), which were likely to reach $10 bn by the end of the year.

In stark contrast to Argentina, Rhodes was distinctly pessimistic about progress being made in Brazil and, much more importantly, whether they had a will to make progress. In particular, the Brazilians were hoping to delay negotiations with the banks until they had reached an agreement with the Fund, which was unlikely to be until September, so that in practice discussions with the banks would be delayed until November or December. Rhodes felt that this would be much too late since by then the arrears would be massive. Also it was worth bearing in mind that the trade surplus had been $12 bn last year and was projected to be $13-$15 bn this year.

Rhodes went on to say that he felt that the Brazilians' strategy in procrastinating was to drive down the market value of

Brazilian paper, to as low as $20-$25 with a view to buying some back. While this was not against the letter of the agreement with the banks, it was certainly against the spirit of it and was totally out of line with the normal way of conducting international financial affairs.

Also the Brazilians were saying that they did not want to negotiate with the Co-ordinating Committee but rather separately with individual banks, which Rhodes pointed out would be extremely difficult since there were around 500 lenders.

A further complicating factor, which could become more serious over time, was that the US bank regulators had decided last week to declare Brazilian medium term debt "value impaired" and to require a 20% reserve against it. It was possible there would be a tougher supervisory response if something was not done soon.

Overall, Rhodes was concerned that unless negotiations with the banks were started soon, it was possible that we would find ourselves back to a 1982/83-style crisis.

John Reed was proposing to report along these lines to President Bush and, together with Rhodes, to other officials in the US and elsewhere, including Wilson, in his capacity as Chairman of the Interim Committee.

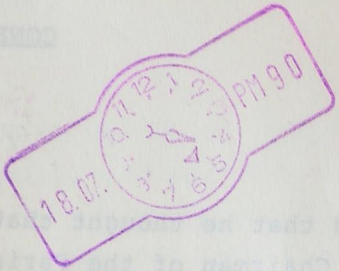
Rhodes had already spoken to Camdessus and Trichet to suggest that parallel negotiations with the banks and the Fund would be a good thing, and had received a positive reception from both, with Camdessus noting that he might find it easier to justify a package to the Board if negotiations were already underway with the banks.

Another important meeting would be the Baker Initiative Committee gathering next week, which Lloyds (Sir Jeremy Morse and Brian Pitman) would be chairing. The Governor noted that Andrew Crockett would be present for part of the session, and Rhodes said it was important that he took a positive stance on doing something quickly. The Governor said that he would also have an opportunity to do this when he saw the Brazilian Ambassador to the UK on Monday 23 July.

Rhodes said that he thought that the UK, together with the US and France (as Chairman of the Paris Club), had an important contribution to make in ensuring that things did not go wrong. The Brazilian President looked to the Prime Minister for inspiration on a number of matters, including in particular the privatisation programme, and it was just possible that UK politicians and officials could help head off the crisis he feared.

Governor's Office HO-P
17 July 1990

P M W Tucker (4121)


18.07.
PM 90

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 July 1990

PRIME MINISTER'S MEETING WITH THE BRAZILIAN MINISTER OF THE ECONOMY

The Prime Minister had a brief meeting this afternoon with the Brazilian Minister of the Economy, Professor Cardoso de Mello. She was accompanied by the Brazilian Ambassador and two advisers. Our Ambassador in Brasilia was also present.

Professor Cardoso de Mello gave an account of her Government's economic programme and the difficulties being encountered with Congress, and with strikes in a number of key industries. The President was nonetheless determined to press ahead, in particular with privatisation, debt for equity swaps and exposing Brasilia's industry to greater competition. The Brazilian Government hoped that a Mission from the IMF would come to Brazil shortly to agree a programme, which would enable negotiations to be re-opened between Brazil and its creditors.

The Prime Minister congratulated Professor Cardoso de Mello on the boldness of the Brazilian Government's approach and their success to date. She referred to growing international competition for investment and the need to provide the most favourable possible climate for foreign investment. Professor Cardoso de Mello said that Brazil particularly welcomed investment from Britain. There were encouraging signs of interest in the privatisation programme on the part of some of Britain's biggest banks and financial institutions.

The Prime Minister gave a brief account of the main conclusions of the Economic Summit in Houston. The greatest success had been over trade and agriculture. There had also been a substantial discussion of co-operation with Brazil over tropical forests, and agreement to support a comprehensive pilot scheme to counteract the threat to tropical forests. The Brazilian Ambassador observed that the new Government was particularly active in this area, as the President had promised the Prime Minister on his earlier visit, and was offering institutions in other countries the opportunity to purchase a stake in re-afforestation projects.

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The Prime Minister concluded by congratulating Professor Cardoso de Mello on the Brazilian Government's determination and wishing her success in her policies. Professor Cardoso de Mello renewed the Brazilian Government's invitation to the Prime Minister to pay an early visit. The Prime Minister said she would like to take this up one day, but perhaps when the economic reform programme was somewhat more advanced.

I am copying this letter to John Gieve (HM Treasury) and Martin Stanley (Department of Trade and Industry).

CHARLES POWELL

Simon Gass, Esq.,
Foreign and Commonwealth Office

PRIME MINISTER

MEETING WITH THE BRAZILIAN MINISTER OF THE ECONOMY

You agreed to a brief meeting on Monday with the Brazilian Minister for the Economy who has been sent over to Europe by President Collor. You will remember her because she accompanied President Collor on his two earlier visits to see you. She is an academic economist, only 37, who spent some time at the London Embassy some years ago and is President Collor's closest adviser. She goes on from London to Bonn and Paris.

There are really two subjects to discuss: the progress of President Collor's economic policies in Brazil - you will remember that he gave you a preview on his last visit: and the recent Economic Summit in Houston. The Brazilians see your meeting with Professor de Mello as the first formal briefing of their Government by one of the G7 participants.

On the Brazilian economy, the picture is rather bleak. President Collor introduced a very radical programme in March, but it is already in trouble. The inflation rate is creeping up again, the target of a fiscal surplus will not be reached, and the measures to privatise and to lay off 360,000 civil servants have got stuck in the courts. The Brazilians are still hoping to reach an agreement with the IMF on the basis of these reforms, but it is likely to be difficult. You will want to ask Professor de Mello for her assessment of the situation and the prospects. You can welcome the bold decisions taken and encourage her to stick to them. You can particularly welcome the commitment to a much more open trade policy.

On the Houston Summit, you will want to give Professor de Mello a brief account of the main conclusions, emphasising those on trade and tropical forests. The latter is, of course, of particular interest to Brazil: indeed action can only succeed with Brazil's willing participation.

There is a fuller note by the FCO in the folder together with a copy of the Houston Economic Summit conclusions, in case you wish to refresh your memory.

CDP

CHARLES POWELL

13 July 1990

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CC PS
Backup

Foreign and Commonwealth Office

London SW1A 2AH

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13 July 1990

Dear Charles,

Call on the Prime Minister by the Minister of the Economy of Brazil: Monday, 16 July

Professor Zelia Cardoso de Mello will call on the Prime Minister at 5.30pm on Monday, 16 July. She will be accompanied by an adviser, by Sr Paulo Tarso Flecha de Lima, the Brazilian Ambassador, and Mr Michael Newington, HMA Brasilia, for whom I enclose personality notes.

Professor Cardoso de Mello's visit to London takes place at Brazilian initiative and at very short notice, as part of a trip which will include Bonn, Paris and Brussels. The Minister will want to give an account of the economic policies put in place since President Collor's assumption of office, in particular the recent liberalisation measures, and the outlook for the future. While here, she will carry out an intensive programme, details of which I enclose. A party of businessmen will be travelling with the Minister to publicise trade openings in Brazil.

The Prime Minister will recall that Professor Cardoso de Mello, as his then economic adviser, accompanied President-elect Collor de Mello (no relation) when he called on her in February. On that occasion, the Prime Minister expressed her confidence in his determination to overcome Brazil's economic problems, and advised that difficult decisions should be taken at the beginning; she assumed that he would go to the IMF. In discussing debt strategy, Sr Collor expressed some doubts on whether debt reduction on the lines of the Brady plan was the right solution for Brazil. As part of his plans to liberalise the economy, he had set an ambitious target of privatising one enterprise a month. If he could get results across the board in the first hundred days, the President-elect thought that he could succeed in reforming the economy. He outlined his main aims as tackling the hyper-inflation of 80% per month, correcting the budget deficit, liberalising trade, and reforming the public sector.

/The

The programme launched on 15 March, of which Professor Cardoso de Mello was one of the main architects, was much more radical than expected. The money supply was brought under control by freezing two-thirds of liquid deposits and a new currency was introduced. The immediate result of these drastic measures was a fall in the monthly rate of inflation to 8%, and a sharp recession, with overall output down by about 10%, and rising unemployment.

The programme has now run into difficulties. According to opinion polls, public support halved to 36% in the last month. Monetary targets have slipped partly as a result of exemptions from the asset freeze designed to cushion the effects of recession. Monthly inflation is creeping up again into double figures. The Government's target of a fiscal surplus will be missed as tax revenues have been depressed by the economic slowdown. While the Government has been largely successful in piloting the key measures through Congress, both the privatization programme and the attempt to lay off 360,000 civil servants have been held up by the courts. The Government has introduced a new trade and industrial policy, which will lower protective tariff barriers, and remove some legal disincentives to foreign investment.

The Government has announced its intention to agree a formal IMF programme on the basis of its reforms to date, but it is still not clear when this will happen. An IMF team will be arriving in Brasilia later this month, following Professor Cardoso de Mello's discussions with the IMF in New York.

An IMF programme will be a condition for the reopening of formal negotiations between Brazil and its external creditors. As well as a Paris Club rescheduling, Brazil is expected to seek a commercial debt reduction package with official support under the Brady Plan. Brazil's total external debt now stands at over $120 billion - the largest of all developing countries. Of this, about $70 billion is owed to commercial banks, and over $20 billion to official creditors in the Paris Club.

In the political sphere, President Collor may face some setbacks in the October legislative and gubernatorial elections as a result both of his lack of a traditional power base and of a diminution in his popularity caused by the swingeing economic measures which he has introduced.

The Prime Minister may wish to welcome the boldness of the Collor Administration's approach to economic reform and Brazil's new commitment to more open trade, and stress the importance of prompt regularisation of relations with external creditors.

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Professor Cardoso de Mello may refer to President Bush's recent proposals outlined in his "Enterprise for the Americas", and especially to the proposal that a multilateral investment fund of $300 million should be set up with $100 million contributions from the US, Japan and the EC. The Prime Minister might say that we have found much to welcome in President Bush's initiative, but will wish to study it in greater detail before making any commitments.

Professor Cardoso de Mello would no doubt also be interested to hear the Prime Minister's views on the Houston Summit, particularly those points directly relevant to Latin America.

Since President-elect Collor's call in February there have been a number of high-level contacts. Both the Lord President and Mr Sainsbury attended the President's inauguration, while the Brazilian Ministers for Foreign Affairs, Infrastructure, and the Environment have come to London. More recently, Lord Trefgarne opened successful seminars on privatisation in Brasilia and Rio de Janeiro, in which four British experts (including Mr Graham Bright MP and Mr Tim Smith MP) led the discussion. TRH The Prince and Princess of Wales wil visit Brazil at President Collor's invitation in October/November.

Yours ever,

(S L Gass)
Private Secretary

C D Powell Esq
10 Downing Street

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PROGRAMME FOR THE VISIT OF PROFESSOR ZELIA CARDOSO DE MELLO
15-16 JULY 1990

Sunday 15 July	Minister and party arrive by Varig Flight 758 at 12.35
	Lunch privately at Residence of Brazilian Ambassador
Monday 16 July	
09.30am	Call on the Lord President of the Council, Sir Geoffrey Howe QC MP
10.20-10.40am	Address London Chamber of Commerce seminar, 69 Cannon Street, EC
11.30am	Call on Mr Richard Ryder MP, Economic Secretary, Treasury
12-2.30pm	Lunch meeting arranged by Brazilian Embassy, followed by press conference
3.30pm	Call on Lord Trefgarne, Minister of State, Department of Trade and Industry.
5.30pm	Call on Prime Minister
7.00pm	Leave for airport. Departure by Lufthansa 1643 for Cologne.

BR5AIV

ZELIA MARIA CARDOSO DE MELLO (PROFESSOR)

Minister of the Economy, Finance and Planning of Brazil

Born 1953 in Sao Paulo.

Graduated in Economics and Business Studies from the University of Sao Paulo.

Doctorate in 1981.

1981-1982 attached to Brazilian Embassy, London. (Studied briefly at LSE)

1983-86: Consultant for several private Brazilian companies; financial director for Sao Paulo State Housing Development Company; Member of the Fiscal Council of Sao Paulo Energy Company (CESP). Lecturer of University of Sao Paulo.

1986-87 worked in Ministry of Finance.

Basically an academic economist, Zelia Cordoso is the main architect of Collor's economic plan and remains his closest adviser on economic matters.

Despite her name, no relationship to the President.

Single. Likes gourmet cooking. Speaks fluent English.

CV1ABJ

(PAULO TARSO FLECHA DE LIMA)
(Known as Paulo Tarso)

Brazilian Ambassador to the Court of St James's since 16 March 1990.

Born 1933 in Belo Horizonte, Brazil.

Studied Social and Juridical Sciences.

Career diplomat.

1955 joined the Foreign Service .

1961-66 served first in Rome and then Montevideo

1966-69 Deputy Representative of Brazil to the Latin American Free Trade Association.

1967-71 Consul, New York. 1972-83 Head of the Department for Commercial Promotion. Accompanied Tancredo Neves when, as President-elect, he toured Europe and the Americas.

1985-90 Secretary-General of Itamaraty (the Brazilian Foreign Ministry)

Effectively ran the MFA, overshadowing then Foreign Minister Sodré. A strong and autocratic heavyweight and a lucid interlocutor with a particularly good grasp of economic and commercial issues. He was the architect of Brazil's successful strategy of commercial promotion through diplomatic missions, an interest which he is pursuing vigorously in London.

Married. Five children. Speaks excellent English.

Foreign and Commonwealth Office
July 1990

BR5AHR

MICHAEL (JOHN) NEWINGTON GMG

(HM Ambassador, Brasilia)

Born:	10 July 1932
Educated:	Stamford School, Lincs, St John's College Oxford
At present:	Brasilia (HM Ambassador) since December 1987

Entered Foreign Service via 1960 Supplementary Open Competition.

Career:

1951-52	National Service (RAF - Pilot Officer)
1955-58	Foreign Office (Unestablished) (London 1955-56 and Hong Kong 1957-58)
1959-60	ICI Ltd., Birmingham
1960	Foreign Office (PUSD - Second Secretary)
1961	Bonn (Second, later First, Secretary, Commercial)
1965	Lagos (First Secretary)
1968	Foreign Office (Assistant Head of Oil Department)
1968	FCO (Assistant Head of Scientific Relations Department)
1972	Bonn (Counsellor, Scientific)
1975	Tel Aviv (Counsellor/Head of Chancery and Consul General)
1978	FCO (Head of Republic of Ireland Department)
1981	Dusseldorf (HM Consul General)
1985	Caracas (HM Ambassador)

Married:	1956 - Marjorie Nina Gordon-Jones
Children:	One daughter (1958), one son (1962)

CV1AAM

Dear Charles,

PAULO TARSO FLECHA DE LIMA

Brazilian Ambassador

Text of this morning
speech. Regards

R 16/7

THE NEW BRAZIL PLAN

Address by
Minister Zélia Cardoso de Mello
July, 1990.

I would like to take this opportunity to present to such a distinguished audience an overview of the ambitious economic reforms being implemented in Brazil under President's Collor Administration.

To better understand the magnitude of the sweeping changes introduced from March, 15th on, it is necessary to look back over the last few difficult years in Brazil.

The 80's are correctly viewed in Brazil as a "lost decade". While Brazil has grown at an average rate of almost 8% per year during the 70's, growth during the 80's declined to only 2.2% per year. This was enough only to keep per capita income levels unchanged during a whole decade.

The rate of investment also declined sharply. Gross capital investment fell from 23% of GDP in 1980 to

less than 18% of GDP in 1989. Since the investment ratio determines the limits to future economic growth, it has become imperative to mobilize new investment opportunities.

The single most important factor behind the decline in the rate of investment is high inflation. The uncertainties and the volatility of relative prices under high inflation inhibited private investment, while the erosion of tax revenues and the increase in interest rates, again due to high inflation, reduced public savings and, hence, public investment.

By February 1990, one month before the new Goverment took office, the disarray faced by the Brazilian economy seemed unsurmountable. High inflation turned into hyperinflation, as monthly rates neared 100%. Aggregate supply was falling and the markets were disorganized due to the difficulties of setting term sales prices in the context of rampant inflation. The public setor borrowing requirement for 1990 shot up to 8% of GDP, as a result of the public wages increases and other expansionary fiscal measures during the last months of the previous government.

Under these very adverse circumstances, the New Brazil Plan was launched by President Collor on the very first day of his Administration. Its main goal was the recovery of investment and, hence, of a sustainable output growth path for the Brazilian economy. The Plan combined a

strong stabilization program aiming at producing a quick decline in the rates of inflation in the short-run and a set of structural reforms, that would simultaneously consolidate the decline in inflation rates over the medium and long-run as well as launch the economy into a new output growth cycle. The structural reforms aim at increasing the efficiency and the productivity of the Brazilian economy through the modernization of the State, the opening of the economy to foreign trade and investment, and the liberalization and deregulation of the domestic markets. Increased competition will allow for increased productivity and, hence, higher real wages, together with the expansion of output and employment. The swelled State will step back and leave to the private sector the initiative to promote growth.

The results so far achieved are encouraging. Let me first try and summarize the policies behind them.

The stabilization program attacked inflation on three fronts: income, fiscal and monetary policies.

The income policy involved a temporary price freeze, the permanent floating of the exchange rate and the end of the automatic wage/cost-of-living adjustments. Less than 60 days after the Plan was announced, the Government reaffirmed its commitment to a market economy by promoting a

general price liberalization and today only a few items of the basic food basket remain under very loose price controls. Free wage negotiations have been instituted, for we believe that wage increases should not be set by bureaucratic decisions but should, instead, reflect productivity gains and/or reductions in profit margins, in the context of the ongoing democratic process of labour/management negotiations.

The fiscal adjustment of the stabilization program comprised three reforms: the property reform, the administrative reform and the tax reform.

The property reform is intimately linked to the modernization of the State as it involves a large-scale transfer of ownership of public assets to the private sector. The Privatization program should raise, in two years, around US$ 17 billion from the sale of state companies. The intention is to privatize the first companies still this year, beginning in the steel, petrochemical and fertilizer sectors. Total sales will rise above US$ 40 billions, including the potential privatization of the infrastructure sector, such as the port system. Our program is, by all international standards, quite liberal concerning foreign capital. Foreigners can acquire up to 40% of the voting shares and up to 100% of the non-voting shares.

The administrative reform is promoting an unprecedented reduction of public sector personnel and a deep streamlining of the Federal Government. In the first 100 days of Government, around 160.000 public sector workers have already been dismissed and an estimated additional 160.000 will still be set aside. Several Government agencies - such as the traditional Brazilian Coffee Institute - have been extinct. The number of Ministries have decreased from 23 to 12. The Federal Government is facing its share of the unavoidable pains of adjustment.

The tax reform completes the picture of the fiscal adjustment. It encompasses both increases in revenue and cuts in expenditures, stemming in 1990 from the reduction of a vast array of subsidies that had flourished over the past two decades, the taxation of activities that had been for long legally exempt such as agriculture and exports, and the elimination of the inflationary erosion of tax revenues and public prices.

Another source of a permanent and significant increase in revenues is the battle against tax evasion launched by the new Government. Stricter control and, above all, the end of all anonimous transactions broadened almost immediately the tax base of the economy.

The result is an tremendous fiscal adjustment of the order of 10,37 per cent of GDP. The revised estimate of the fiscal deficit of 9,15 per cent of GDP for 1990, has been turned around into an operational surplus of 1,22 percent of GDP. Never in Brazilian history, and I dare say in recent world economic history, has such a significant adjustment of public accounts been effected in such a short period of time. This fiscal effort has in addition established permanent mechanisms for a new and healthy pattern of financing of the public sector in Brazil, thereby reducing the uncertanties of the private sector as to future levels of taxation and costs of public services. The intention of the Government is to obtain in 1991 again a budget surplus of 1 per cent of GDP.

The third and last component of the stabilization program was the new monetary policy, or, more particularly, the monetary reform that introduced a new currency, the Cruzeiro. Among other goals, this reform aimed at overcoming the institutional deadlock of the financial system of the country. The persistence of high inflation rates produced a very short profile for all financial assets. This process was particularly visible in regard to the federal domestic debt which had, in practice, a dayly profile. Such a phenomenon placed a serious constraint upon the monetary policy, inasmuch as any rise in the interest rates would immediately contaminate the whole stock of the

debt and, therefore, would overburden the public finance. Under these circumstances, a monetary squeeze did not help to control inflation. On the contrary, the higher the interest rates the larger the expected fiscal debt and, therefore, the more intense the inflation accelaration required to finance the public sector.

The only way to circumvent this situation was a swap of the short term and floating rate securities for longer term and fixed rate ones, which was not likely to occur naturally and in the short-run. Incentives via higher interest rates would threaten to put at risk the fiscal adjustment for this year.

Hence, given the fact that the huge stock of quasi-money, represented by short term Government securities, savings accounts and deposits, could turn into money at any moment and put dramatic pressure on prices, the Government decided to freeze such funds until the public had gained sufficient confidence in the stabilization program to voluntarily buy longer term securities. This period was set by the Plan at 18 months, when the old Cruzados will start to be gradually released from the blockage.

Four months afterwards, the program has already, restored the Government's ability to make economic policy. Government policy now can create the conditions for

a more cooperative relationship among the economic agents (the state, the business community and labour) by setting a framework of increasing stable and clear rules.

Secondly, inflation rates, which reached levels approaching 100 per cent a month in March, have been dramatically reduced. In May, they had fallen to around 8% and, although seasonal factors pushed the rates up to around 10% in June, the latest statistical evidence shows that they are again decreasing in the light of demand contraction. Prospects are therefore that the inflation in August will be lower than in July and that it will probably stabilize at those lower levels from then on.

Now, the economy is by and large in equilibrium and the rigid monetary and fiscal policies in place provide a basis for a final attack in the months ahead on the inflationary memory still haunting the Brazilian society.

Another visible result of the reforms is the new role of the state in the Brazilian economy. Freed from the obligation of making new and large investments in the productive sector, the state will concentrate its efforts on its typical activities, such as providing education, public health services, national security and law enforcement - in short, distributing the fruits of national wealth.

During the 80's the state in Brazil attempted to both satisfy the population basic needs and build a large industrial base. Due to the scarcity of public savings, however, social needs were neglected and the state enterprises lagged behind in technological innovation, and capital formation.

Under the new programs, the State will no longer use credit and fiscal incentives and administratives controls as permanent policy instruments, nor will it intervene directly in the productive process, except in those areas traditionally reserved for public investment. The State will limit itself to setting a policy environment conducive to the growth of private investment. In other words, the Brazilian economy is being treated to a real shock of capitalism, and modernization.

This is the rationale behind the new industrial and trade policy announced by the Government on June 26th. The new policy means a rupture with the past, a departure from the old import substitution model which had long ago exhausted its usefulness. It is also a leap into the future, for it provides the private sector with a time horizon and clear directives as to the changes to be introduced in the economy in the next few years. The key words here are liberalization, efficiency, competition.

The new industrial policy will encourage the private sector to search for new levels of quality and productivity, both by exposing it to international competition and by opening new spaces for investment in areas so far unduly occupied by the State. The Government action will stress technological capacitation and training of human resources, besides macroeconomic stability.

The new trade policy, for its part, has already liberalized and deregulated the Brazilian trade regime. All direct export subsidies have been eliminated and the main incentive for exporters nowadays is a floating exchange rate system reflecting market realities. On the side of imports, a complete overhaul was introduced. The two pervasive quantitative restrictions - a prohibition list of 1200 items and import company quotas - were eliminated and the customs tariff could be reinstated in its central role in determining the level of domestic protection. In addition, a tariff reform is under way to phase out by 1994 the average tariff rate to 20 per cent, from the current 37 per cent. Import permits are no longer a restriction, since they will be automatically issued within 5 working days. In short, the new import policy is transparent, reliable and predictable. Besides, Brazil will no longer set trade surplus' goals and go about restricting imports to attain those goals at all costs. Brazil wants rather to increase trade both ways. The trade surpluses should come as a consequence.

The effort to modernize the economy implies attracting foreign investment. Foreign capital can fulfil three important functions: contribute to a recovery of investment ratios, expand trade and offer access to modern technology. Economic stabilization and subsequent growth in 1991 should provide the basic incentives, since the Brazilian legislation, stable since 1963, is already considerably liberal and cooperative to foreign capital. Sectoral restrictions are being re-examined, for instance in the informatics sector. The Government will soon propose new legislation to Congress, with a view to insert informatics, a key sector to modernization of the whole industrial complex, into the general framework of the new, liberalized, industrial policy. An additional signal to international cooperation is the review of existing legislation on intellectual property protection; early in 1991 a bill will be proposed to Congress updating the 1971 Industrial Property Code, including the granting of patent protection to pharmaceutical products.

These economic reforms are being introduced by the Government because Brazil needs them. Together they frame a development policy based on growth with stability, which will bring about the bridging of existing regional and social disparities, the upgrading of living conditions of the Brazilian population and the rational use of our natural

resources. However, these reforms, by providing a diversification of our external economic ties, will also generate benefits and opportunities to our trade and investment partners. It is to be expected, therefore, that our major partners - such as the European Economic Community - will reciprocate the liberalization of the Brazilian economy with matching gestures in both our bilateral and multilateral negotiations, as in the GATT.

In the Uruguay Round, Brazil intends to play a constructive and active role in this final stretch. We feel fully committed to the sucess of the Round and we hope that the multilateral trading system will come out strengthened in its disciplines and rules, so that the threats of unilateralism and the proliferation of grey area measures are finally curbed. As a medium trading power, Brazil has interests in practically all negotiating areas of the Round and would like to see a balanced package of results by the end of the day. A few areas are crucial: liberalization of agricultural trade; an agreement on safeguards on a non-discriminatory basis; better access in textiles and other product areas of special interest to a large number of developing countries, to name just a few.

Finally, let me briefly address the issue of our foreign debt. Our Government has set two policy guidelines on this question. First, we want to negotiate permanent

solutions, through a constructive dialogue with the international financial community. It is in nobody's interest to continue with the back and forth, stop and go process of discussions which has so far prevailed. On the other hand, we do not intend to accept commitments that we will not be in a position to effectively fulfil. Secondly, we want to negotiate our debt on the basis of our domestic stabilization program, thereby departing from the approach of past negotiations, when the debt agreements used to precede and determine the goals and priorities of our domestic economic policy.

From these basic directives we have derived a working schedule which is about to unfold. Brazil intends to reach soon (in September) a stand by agreement with the IMF so as to resume formal negotiations with the Paris Club and the private banks, Meanwhile, we are prepared to talk to the banks, to listen to their viewpoints and to expose to them the key poins of our position. In an informal way, we are already doing exactly that. It is wrong to interpret this initiative, as some did, as a repeal of the Bank Advisory Committee; the idea is to facilitate a meeting of minds over mutually advantageous solutions. We intend to explore with the banks different alternatives, including debt for equity swaps in the context of our privatization program or outside it.

A final remark about the future. We in Brazil believe that the future has already arrived. The New Brazil that we are building wants to be seen as a reliable economic partner. We will pursue our development policies not in isolation, but rather together with those that believe in us.

This is the moment to bet on Brazil. Because we are obviously putting our house in order, and not without sacrifices, the potential advantages of Brazil as an investment and trade partner come out more naturally: consolidated democratic institutions, that is, the political framework for economic freedom; a huge consumer market that economic stabilization and growth will soon increase manifold; an active and resilient business class, capable of quickly responding to new market signals; an ample base of natural resources and a modern infrastructure of services and communications; an abundance of labour, including skilled personnel in certain key sectors; and, finally, an indigenous technology that can in some areas facilitate the adaptation of foreign resources to the realities of the land.

In short, all that was lacking in Brazil was the courage to change for the better, by tapping all these factors and by giving the country a sense of direction and purpose. The Government of President Collor is doing just

that. We want you - European businessmen, investors, public opinion - to join us .

EMBAIXADA DO BRASIL - BRAZILIAN EMBASSY

32 Green Street, London W1Y 4AT - Telephone: 499.0877 - Telex 261157 BRASLO G

FACSIMILE TRANSMISSION

CSO 12/7 AUTORIZO

DATA: Date: 12 / July / 1990.

HORA: Time:

DE: From: Brazilian Ambassador Senhor Paulo-Tarso Flecha de Lima

PARA: To: Mr. Charles Powell - Private Secretary to the Prime Minsiter

Nº DO FAC: FAC NUMBER: 10 Downing Street, SW.1

Nº DE PÁG. (incluindo esta): Nr of pages (including this): 1

MENSAGEM: MESSAGE:

1730

Dear Charles,

I am writing you rather urgently to inform you that our Minister for the Economy, Planning and Finance, Miss Zelia Cardoso de Mello, is due here on Monday, 16th of July, for a short round of informative contacts. She is in principle going to call on a few members of the British Government. I also thought it would be appropriate to hold a luncheon party for her when she could offer a progress report on the achievements of the Brazilian economy under her direction. She gladly accepted the idea of Monday, 16th July, and suggested that the luncheon be preceded by a one-hour session at 12 noon, in which she could explain the Brazilian Government's economic policies, especially the ample free trade course that has just been adopted. I expect that the whole programme will be finished by 2.30 p.m.

I wonder if you might be able to join us on that occasion, especially having in mind the interests of your organisation in Brazil. I have to apologise for the relatively late invitation, due to the fact that the decision of our Minister's visit to London was only taken yesterday afternoon.

I do hope you are able to attend. In such case, please let me know through my secretary, Miss Flora Belle, telephone: 071 629-6044.

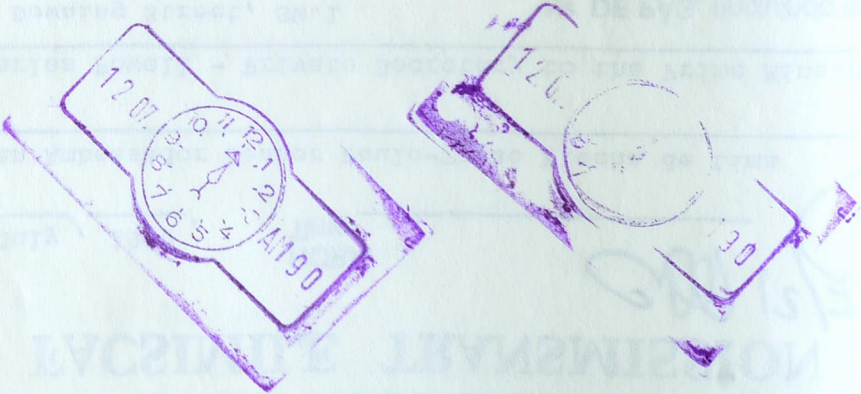
Looking forward to seeing you I remain,

Sincerely yours,

Paulo Tarso Flecha de Lima
Brazilian Ambassador

EM CASO DE DÚVIDAS SOBRE ESTA TRANSMISSÃO FAVOR CONTACTAR O MAIS RÁPIDO POSSÍVEL ATRAVÉS DE NOSSO FACSIMILE

If there is any doubt about this transmission, please contact urgently our facsimile



EMBAIXADA DO BRASIL - BRAZILIAN EMBASSY

6z Green Street, London W1Y 4AT - Telephone: 499 0877 - Telex 261157 BRASLO G

FACSIMILE TRANSMISSION

DATA:
Date: 11 / 07 / 1990

HORA:
Time:

AUTORIZO

DE:
From: Brazilian Ambassador, HE Paulo-Tarso Flecha de Lima

PARA:
To: Mr. Charles Powell, Hotel Ritz Carlton, Houston (British Delegation)

Nº DO FAC:
FAC NUMBER: 010 171 3-8400616

Nº DE PÁG. (incluindo esta):
Nr of pages (including this): 1

MENSAGEM:
MESSAGE:

Dear Charles,

I have just arrived in the office and your associates had already informed my people that the Prime Minister would be receiving our Minister of the Economy next Monday, at 5.30 p.m.

I have already passed on the information to Brasília and my people were extremely pleased with such an honourable gesture. On my part, may I say how grateful I am for your assistance and reiterate how important I believe this visit is. I am sure it will provide an excellent opportunity for our Minister to explain at the highest level the innovative economic policy President Collor and herself are carrying out in Brazil.

Hoping to see you when you get back, I remain

Sincerely yours

Paulo Tarso Flecha de Lima
Brazilian Ambassador

EM CASO DE DÚVIDAS SOBRE ESTA TRANSMISSÃO FAVOR CONTACTAR O MAIS RÁPIDO POSSÍVEL ATRAVÉS DE NOSSO FACSIMILE

If there is any doubt about this transmission, please contact promptly our facsimile

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32 Green Street, London W1Y 4AT - Telephone: 499 0877 - Telex 8811167 BRASLO G

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FACSIMILE TRANSMISSION

AUTORIZO

DATA: Date: 10 / July / 1990 .

HORA: Time: _____

DE: From: Brazilian Ambassador Paulo-Tarso Flecha de Lima

PARA: To: Mr. Charles Powell, Private Secretary to The Prime Minister (Overseas Affairs) C/o BRITISH DELEGATION

Nº DO FAC: FAC NUMBER: Hotel Ritz-Carlton - Houston 0101713-8400616

Nº DE PÁG. (incluindo esta): Nr of pages (including this): two

MENSAGEM: MESSAGE:

Dear Charles,

I tried to get hold of you by telephone but was informed that you were in Houston with the Prime Minister. The purpose of my call was to inform you that Miss Zelia Cardoso de Mello, the Brazilian Minister for the Economy, Planning and Finance, is due here next Monday, July 16th, and I was wondering if you could tell the Prime Minister of her presence in town. Although I am aware of Mrs. Thatcher's tight agenda, and the late time of my coming with this request, I wonder if the Prime Minister could consider the possibility of receiving her.

Among a number of arguments that could be brought to mind to underline the usefulness of this contact, I could think of especially these:

1) Mrs. Thatcher already met Miss Cardoso de Mello twice, for she accompanied President Collor in his visits to the Prime Minister, first as a candidate and then as President-elect;

2) President Collor has been very keen in having Mrs. Thatcher as an inspiring force and he is actively engaged in a very ambitious programme of reforms in which free-trade, privatization and re-assessment of the presence of the State in the economy play a relevant role;

3) Miss Cardoso de Mello, as the Minister for the Economy, Planning and Finance, is the leading executor of these extensive reforms;

4) Mrs. Thatcher would probably be the first G-7 Summit participant to contact a high level Brazilian authority, bearing in mind that the Summit will have addressed a number of issues of paramount importance for Brazil, like official debt, environment, Uruguay round and international trade;

5) I have read many news reports about the Prime Minister's strong plea in favour of free-trade during the Houston talks, and it is important to note that Brazil has followed the same pattern , having recently abolished all its trade barriers and significantly reduced its tariff levels;

EMBAIXADA DO BRASIL - BRAZILIAN EMBASSY

32 Green Street, London W1Y 4AT - Telephone: 499 0877 - Telex 261157 BRABLO G

FACSIMILE TRANSMISSION

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MENSAGEM:
MESSAGE:

6) Deeply interested in the outcome of the Uruguay Round, Brazil has made considerable efforts to meet the concerns of industrialised countries about intellectual property subjects, not to speak of the EEC's farm policy, in which we share a very similar view to the Prime Minister's on the importance of reducing subsidies.

I must apologize for sending you this memo while you are away but I thought that in your way back to London you might have a chance to discuss with the Prime Minister the possibility of receiving Miss Cardoso de Mello.

Please do not hesitate to contact me if you need more information about Miss Cardoso de Mello's visit to Britain.

Thanks for your kind attention and I remain,

Yours sincerely

Paulo-Tarso Flecha de Lima
Brazilian Ambassador

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INFO SAVING LIMA, ASUNCION, BOGOTA, LA PAZ, QUITO

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COLLOR'S FIRST 100 DAYS

SUMMARY

1. COLLOR SAYS BRAZIL HAS STARTED TO CHANGE. NEW INDUSTRIAL AND TRADE POLICY TO BE ANNOUNCED. OPINION POLLS SUGGEST SUPPORT MAY BE ON THE WANE. OUR ASSESSMENT POINTS TO SOME SUCCESSES AND PROSPECT OF FURTHER PROGRESS, DESPITE OVER-OPTIMISTIC GOVERNMENT PROMISES. BUT HIS MINISTERIAL TEAM IS WEAK AND INEXPERIENCE MAY BE HIS GREATEST PROBLEM.

DETAIL

2. AFTER A FIVE-HOUR CABINET MEETING EARLIER IN THE DAY, COLLOR MADE A 15-MINUTE SPEECH TO THE NATION ON TELEVISION AND RADIO ON 22 JUNE GIVING HIS ASSESSMENT OF HIS FIRST 100 DAYS. HE SAID THAT BRAZIL HAD STARTED TO CHANGE AND THAT ALL HIS PROMISES WOULD BE FULFILLED, JUST AS HIS PROMISE TO REDUCE INFLATION TO LESS THAN 10 PER CENT A MONTH WITHIN 90 DAYS HAD BEEN FULFILLED. HE ALSO POINTED TO THE HALVING OF THE NUMBER OF GOVERNMENT MINISTRIES AND THE CLOSURE OF 50 STATE ENTERPRISES. HE PUT CONSIDERABLE EMPHASIS ON THE MORAL CHANGES HE HAD BROUGHT ABOUT AND SAID THAT BRAZIL MUST NEVER AGAIN BE DESCRIBED AS 'VIOLENT' IN AN AMNESTY INTERNATIONAL REPORT. HE CALLED FOR RESTRAINT AND SACRIFICE FROM EVERYONE, SAYING HE HAD NEVER PROMISED A GARDEN OF ROSES, AND POINTING OUT THAT THE GOVERNMENT COULD NOT DO EVERYTHING BY ITSELF. IN PARTICULAR HE CRITICISED THE

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INSTRANSIGENT FEW (IN EFFECT THE CUT TRADE UNION) WHO HAD BLOCKED AN AGREEMENT ON SALARY NEGOTIATIONS. FINALLY, HE ANNOUNCED HE WOULD BE SENDING MEASURES TO CONGRESS THIS WEEK ON SALARY POLICY AND INDUSTRIAL AND TRADE POLICY.

3. TWO OPINION POLLS PUBLISHED TO COINCIDE WITH THE 100 DAYS SUGGEST THAT COLLOR'S POPULAR SUPPORT IS FALLING. ACCORDING TO DATAFOLHA, 36 PER CENT CONSIDER THE GOVERNMENT TO BE DOING WELL (COMPARED WITH 71 PER CENT IN MARCH), WHILE AN INFORMESTADO POLL OF HEADS OF HOUSEHOLDS IN SAO PAULO SUGGESTS THAT 42 PER CENT ARE SATISFIED WITH THE PLAN AND 58 PER CENT DISSATISFIED. THIS DISSATISFACTION PROBABLY REFLECTS POOR MANAGEMENT AND RASH STATEMENTS BY THE GOVERNMENT RATHER THAN LACK OF SUCCESS. INFLATION, FOR EXAMPLE, HAS BEEN REDUCED TO LESS THAN 10 PER CENT, BUT IN THE PUBLIC MIND THIS IS CONFUSED BY EARLIER CLAIMS OF ZERO INFLATION AND BY THE GOVERNMENT'S FAILURE TO PRODUCE A NEW OFFICIAL INDEX. SIMILARLY, REAL REDUCTIONS IN THE NUMBER OF PUBLIC SERVANTS HAVE STARTED TO BE MADE (ESTIMATED BY GAZETA MERCANTIL TO TOTAL SO FAR 156,000), BUT THIS IS CONTRASTED WITH COLLOR'S COMMITMENT TO CUT 360,000 BY 18 JUNE.

INTERNAL

4. INFLATION HAS BEEN REDUCED FROM 85 PER CENT IN MARCH TO 8 PER CENT PER MONTH, BUT IS SHOWING A WORRYING TENDENCY TO SWING BACK AGAIN. THE ECONOMIC TEAM WILL HAVE TO BE MORE CONVINCING IN THEIR CLAIM THAT THE ONLY CAUSE OF INFLATION IS PUBLIC EXPECTATION THAT PRICES ALWAYS RISE.

5. ONE IMMEDIATE RESULT OF THE PLAN HAS BEEN A DECLINE IN INDUSTRIAL PRODUCTION (DOWN 26 PER CENT IN APRIL COMPARED WITH MARCH). IT HAS SINCE STARTED TO PICK UP, BUT CERTAIN SECTORS (NOTABLY CAPITAL GOODS) REMAIN BADLY AFFECTED.

6. AN INEVITABLE CONSEQUENCE HAS BEEN A RISE IN UNEMPLOYMENT. UNOFFICIAL FIGURES SUGGEST A 14 PER CENT RISE IN UNEMPLOYMENT IN SAO PAULO IN APRIL TO A LEVEL OF 10.6 PER CENT.

7. ON THE MONETARY SIDE THE DRAMATIC LIQUIDITY SQUEEZE HAS ENABLED THE CENTRAL BANK TO PURSUE AN INDEPENDENT

MONETARY POLICY FOR THE FIRST TIME, BUT LOOPHOLES INTRODUCED BY THE GOVERNMENT MAY HAVE ALLOWED TOO MUCH MONEY BACK INTO THE SYSTEM.

8. ON THE FISCAL SIDE, THE GOVERNMENT ADMITS THAT ITS AIM OF A 2 PER CENT FISCAL SURPLUS IS UNATTAINABLE AND THAT THERE MAY BE A SMALL DEFICIT. THIS IS PARTLY BECAUSE OF AN UNDER-ESTIMATE OF THE 1989 DEFICIT, AND PARTLY BECAUSE OF THE INEVITABLE REDUCED TAX REVENUES AS A RESULT OF THE RECESSION.

9. ADMINISTRATIVE REFORM IS MAKING PROGRESS. BUT THE CONCENTRATION ON NUMBERS MAY LEAD TO REDUCED EFFICIENCY.

10. THE PRIVATISATION PROGRAMME HAS BEEN DELAYED, WITH ONLY FOUR SALES LIKELY TO TAKE PLACE THIS YEAR, IN CONTRAST WITH COLLOR'S PROMISE OF ONE A MONTH STARTING IN JUNE. THE FINAL DETAILS OF THE PRIVATISATION CERTIFICATES, WHICH BANKS AND OTHER FINANCIAL INSTITUTIONS WILL BE FORCED TO PURCHASE, HAVE STILL TO BE DEFINED.

EXTERNAL

11. THE IMF TEAM DUE IN JUNE HAS HAD TO BE POSTPONED WHILE THE 1990 BUDGET IS PUT TOGETHER. ASSUMING AN AGREEMENT CAN BE REACHED, THIS WILL BE FOLLOWED BY NEGOTIATIONS WITH THE PARIS CLUB AND THE COMMERCIAL BANKS IN THE AUTUMN. IN THE MEANTIME, NO PAYMENTS ARE BEING MADE TO EITHER.

12. A NUMBER OF POSITIVE MOVES HAVE BEEN MADE IN THE TRADE LIBERALISATION AREA, NOTABLY THE ABOLITION OF A LIST OF 1,500 BANNED IMPORTS, THE REMOVAL OF THE NEED FOR ANNUAL IMPORT PROGRAMMES AND AN INCREASE IN TRANSPARENCY IN THE DECISION-MAKING PROCESS. NEW MEASURES PROMISED THIS WEEK SHOULD CONTINUE PROGRESS TOWARDS A SOLELY TARIFF-BASED SYSTEM WITH GRADUAL RELAXATION IN TARIFFS. THE MAJOR OBSTACLE TO HIGHER IMPORTS REMAINS THE DIFFICULTY IN OBTAINING FINANCING. (WE ARE REPORTING SEPARATELY ON THE VISITS BY THE US COMMERCE SECRETARY AND THE USTR).

COMMENT

13. ALTHOUGH STILL TOO EARLY TO DETERMINE WHETHER THE PLAN WILL BE A SUCCESS, OUR PROVISIONAL ASSESSMENT IS THAT COLLOR

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IS MAKING CONSIDERABLE PROGRESS TOWARDS MEETING HIS AIMS, THAT HE WILL PROBABLY FALL SOME WAY SHORT OF THEM, BUT THAT THIS WOULD STILL REPRESENT A CONSIDERABLE ACHIEVEMENT. THE REAL WEAKNESS MAY NOT, IN FACT, BE IN THE PLAN ITSELF BUT IN THE PEOPLE WHO HAVE TO IMPLEMENT IT. THEY ARE, BY AND LARGE, A PRETTY INEXPERIENCED BUNCH AND THIS MAY BE BEGINNING TO TELL.

14. FOR SAMD. PLEASE PASS A COPY OF THIS TELEGRAM TO ST. JAMES'S PALACE FOR APS/PRINCE OF WALES, AS REQUESTED BY MR SALTER.

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INFO IMMEDIATE ECGD, RIO DE JANEIRO, SAO PAULO
INFO PRIORITY UKDEL IMF/IBRD WASHINGTON

BRAZIL: THE ECONOMIC PLAN

SUMMARY

1. COLLOR'S EMERGENCY ECONOMIC MEASURES DELIVERED TO CONGRESS TODAY. FULL DETAILS NOT YET AVAILABLE. 30 DAY PRICE FREEZE FOLLOWED BY GRADUAL DEINDEXATION. FISCAL AND MONETARY AUSTERITY. ABOLITION OF A NUMBER OF STATE ENTERPRISES AND GOVERNMENT ORGANISATIONS.

DETAIL

2. FOLLOWING SUMMARISES TELEVISION REPORTS OF MEASURES DELIVERED TO CONGRESS ON 16 MARCH. COLLOR HAD INTENDED TO ADDRESS CONGRESS BUT WAS PREVENTED ON TECHNICAL GROUNDS.

A. A 30 DAY PRICE FREEZE, WITH PRICES FROZEN AT 12 MARCH LEVELS. FROM 15 APRIL PRICES AND SALARIES TO RISE AT PREDETERMINED RATES TO MEET COLLOR'S STATED AIM TO GET MONTHLY INFLATION DOWN TO 10% BY MID YEAR.

B. MEASURES TO INCREASE TAX REVENUE, INCLUDING INDEXATION OF OVERDUE TAXES, PUNITIVE MEASURES AGAINST TAX EVASION, CAPITAL GAINS TAX ON STOCK EXCHANGE PROFITS, TAXES ON AGRICULTURAL PROFITS, ETC.

C. SUSPENSION OF A RANGE OF SUBSIDIES, EG FOR THE INFORMATICS SECTOR AND FOR EXPORTERS. FURTHER INCREASES IN PUBLIC SECTOR UTILITY TARIFFS.

D. ABOLITION OF MANY STATE COMPANIES AND GOVERNMENTAL

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SAVING 8

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INSTITUTIONS, INCLUDING SIDERBRAS, PORTOBRAS, BRAZILIAN COFFEE INSTITUTE, SUGAR AND ALCOHOL INSTITUTE. CLOSURE OF VARIOUS REPRESENTATIONAL OFFICES OVERSEAS, INCLUDING INTERNATIONAL ORGANIZATIONS OFFICE IN LONDON.

E. STREAMLINING PUBLIC SECTOR, CUTS IN PUBLIC SERVICE, PRIVATISATION ETC.

F. REPLACEMENT OF NEW CRUZADO BY CRUZEIRO. UNCLEAR HOW MANY NOUGHTS WILL COME OFF EXCLAM.

G. AS YET UNSPECIFIED EXCHANGE RATE REFORM, POSSIBLY IN THE DIRECTION OF A CONTROLLED FLOATING RATE FOR INTERNATIONAL TRADE.

H. IMPORT LIBERALISATION AND MEASURES TO ENCOURAGE FOREIGN INVESTMENT.

COMMENT

3. MEASURES SEVERELY TO TIGHTEN MONETARY POLICY AND TO ENCOURAGE LONGER TERM OPEN MARKET APPLICATIONS LIKELY TO BE ANNOUNCED SHORTLY BY CENTRAL BANK, WHICH WILL PRESUMABLY ALSO DEFINE NEW EXCHANGE RATE AND CURRENCY SYSTEMS.

4. MEASURES LIKELY TO PROVOKE UPROAR IN CONGRESS AND IN PUBLIC SECTOR GENERALLY. MOST ARE PROVISIONAL, COME INTO IMMEDIATE EFFECT, BUT LAPSE AFTER 30 DAYS UNLESS APPROVED BY CONGRESS.

5. FURTHER DETAILS AND COMMENT FO FOLLOW.

NEWINGTON

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MR BEAMISH

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

7 March 1990

Your Excellency,

I have the honour to inform you that Sir Geoffrey Howe has been selected as the official representative of Her Majesty's Government in the United Kingdom of Great Britain and Northern Ireland at the ceremonies for the transmission of the Presidential mandate in the Federative Republic of Brazil on 15 March to His Excellency Senhor Fernando Collor de Mello.

I have the honour to request that Sir Geoffrey Howe may be given all appropriate and necessary facilities for the discharge of his mission. In his capacity as special representative, Sir Geoffrey Howe will be accompanied by Mr. Timothy Sainsbury, Parliamentary Secretary of State for Foreign and Commonwealth affairs, and by Mr. M. J. Newington CMG, Her Majesty's Ambassador to the Federative Republic of Brazil.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

Yours sincerely

Margaret Thatcher

His Excellency Senhor Jose Sarney

Foreign and Commonwealth Office

London SW1A 2AH

6 March 1990

SCANNED

Dear Charles

Brazil: Presidential Inauguration: Letter of Accreditation

The Lord President will represent the UK at the Brazilian Presidential inauguration on 15 March. Letters of accreditation will be necessary for heads of delegation.

I enclose a draft letter of accreditation for the Prime Minister's signature. This will be presented to the outgoing President Sarney, not to the incoming President Collor (whom the Prime Minister has met).

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

FROM: The Prime Minister

TO: His Excellency, Sr Jose Sarney
President of the Federative Republic of Brazil

MRM

SCANNED

I have the honour to inform you that Sir Geoffrey Howe has been selected as the official representative of Her Majesty's Government in the United Kingdom of Great Britain and Northern Ireland at the ceremonies for the transmission of the Presidential mandate in the Federative Republic of Brazil on 15 March to His Excellency Senhor Fernando Collor de Mello.

I have the honour to request that Sir Geoffrey Howe may be given all appropriate and necessary facilities for the discharge of his mission. In his capacity as special representative, Sir Geoffrey Howe will be accompanied by Mr Timothy Sainsbury, Parliamentary Secretary of State for Foreign and Commonwealth affairs, and by Mr M J Newington CMG, Her Majesty's Ambassador to the Federative Republic of Brazil.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

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BRAZIL: APPOINTMENT OF NEW ECONOMIC MINISTER

SUMMARY

1. AS EXPECTED, COLLOR APPOINTS HIS ECONOMIC ADVISER, ZELIA CARDOSO DE MELLO, TO THE KEY POST OF ECONOMIC MINISTER. RECOMMENDATION FOR CHANCELLOR TO SEND CONGRATULATIONS TO PROFESSOR CARDOSO DE MELLO.

DETAIL

2. ON 1 MARCH COLLOR FORMALLY ANNOUNCED THE APPOINTMENT OF HIS LONG STANDING AND CLOSEST ECONOMIC ADVISER, PROFESSOR ZELIA CARDOSO DE MELLO TO HEAD A STRENGTHENED ECONOMIC MINISTRY, WHICH WILL ABSORB AND REPLACE THE OLD MINISTRIES OF FINANCE AND PLANNING. HER APPOINTMENT HAS BEEN WIDELY EXPECTED EVER SINCE COLLOR, AT HIS 24 JANUARY PRESS CONFERENCE (PRIOR TO HIS WORLD TRIP) EMPHASISED THAT HE WOULD NOT APPOINT ANY FORMER MINISTERS TO THE JOB AND THAT HE HIMSELF INTENDED EFFECTIVELY TO BE HIS OWN ECONOMIC MINISTER AND TO ASSUME PERSONAL RESPONSIBILITY FOR ECONOMIC POLICY. THESE COMMENTS RULED OUT SUCH FIGURES AS SIMONSEN (FORMER FINANCE AND PLANNING MINISTER) AND PASTORE (FORMER CENTRAL BANK GOVERNOR) BOTH BECAUSE OF THEIR (IN POLITICAL TERMS) UNACCEPTABLE ASSOCIATION WITH THE OLD MILITARY REGIME, AND BECAUSE OF THEIR HEAVYWEIGHT REPUTATIONS. NEITHER WAS SEEN AS THE SORT OF MINISTER WHOM COLLOR COULD DOMINATE AND THROUGH WHOM HE COULD RUN ECONOMIC POLICY HIMSELF.

3. ZELIA, AS SHE IS POPULARLY REFERRED TO IN THE PRESS, BY CONTRAST, IS EFFECTIVELY COLLOR'S QUOTE CREATION UNQUOTE. HER BACKGROUND AS A MID RANKING FINANCE MINISTRY OFFICIAL (1986-7) UNDER THE THEN FINANCE MINISTER, DILSON FUNARO, AND

AS AN ALMOST UNKNOWN PROFESSOR OF ECONOMICS AT SAO PAULO UNIVERSITY WAS MODEST UNTIL COLLOR CHOSE HER TO BE HIS MAIN ECONOMIC ADVISER. SHE HAS BEEN WITH HIM SINCE THE VERY START OF HIS ELECTORAL CAMPAIGN (WHEN HIS CANDIDATURE WAS WIDELY DISCOUNTED) AND COLLOR CLEARLY HAS COMPLETE CONFIDENCE AND TRUST IN HER. ZELIA IS THUS THE LOGICAL CHOICE AS ECONOMIC MINISTER FOR A PRESIDENT-ELECT WHO APPEARS INTENT ON CENTRALISING POWER AND DECISION MAKING AT THE PLANALTO AND WHO WANTS AN EFFECTIVE AND LOYAL ADMINISTRATOR, RATHER THAN A HEAVYWEIGHT WHO MIGHT CHALLENGE HIS VIEWS AND DECISIONS. MOREOVER, THE ECONOMIC RESTRUCTURING PLAN TO BE IMPLEMENTED AFTER 15 MARCH HAS BEEN DRAWN UP BY A BROADLY BASED TEAM OF ECONOMISTS ACTING UNDER HER DIRECTION SEMICOLON SHE IS THEREFORE CLEARLY THE LOGICAL CHOICE TO IMPLEMENT THIS PLAN.

4. COLLOR'S ANNOUNCEMENT OF ZELIA'S APPOINTMENT, TOGETHER WITH THE REVELATION THAT THE ECONOMIC PLAN IS EFFECTIVELY FINALISED, IS SEEN AS A MOVE TO SHOW SOME STABILITY AND THEREFORE TO CALM THE FINANCIAL MARKETS. IT IS ALSO INTERPRETED AS A NECESSARY PREPARATORY MOVE FOR HIS MEETING (TODAY) WITH PRESIDENT SARNEY, IN ORDER TO DISCUSS THE TRANSITION OF POWER: COLLOR PROBABLY FELT THAT SUCH A MEETING REQUIRED THAT HIS ECONOMIC MINISTER ALREADY BE IN PLACE.

COMMENT

5. PROFESSIONALLY ZELIA IS AN UNKNOWN QUANTITY. SHE IS UNDOUBTEDLY INTELLIGENT AND CONSCIENTIOUS AND CLEARLY HAS EXCELLENT ACADEMIC QUALIFICATIONS. SHE ALSO HAS A STREAK OF OBSTINACY. BUT SHE FACES HUGE POLITICAL AND BUREAUCRATIC OBSTACLES TO THE SUCCESSFUL IMPLEMENTATION OF AN ECONOMIC AUSTERITY PLAN BASED ON A FISCAL ADJUSTMENT OF APPROX 6 PER CENT OF GDP (APPROX USD 18 BILLION). A KEY ELEMENT WILL CLEARLY BE THE OTHER TOP LEVEL APPOINTMENTS IN HER MINISTRY AND IN THE CENTRAL BANK, NONE OF WHICH HAVE YET BEEN ANNOUNCED.

6. SINCE THE CHANCELLOR HAS MET HER, I THINK IT WOULD BE A FRIENDLY GESTURE IF HE WERE TO SEND A BRIEF CONGRATULATIONS MESSAGE.

NEWINGTON

YYYY

CDP's response to this &
PM's letter to President-elect
Aylwin of Chile re freedom
CHILE RELS Pt 2

Foreign and Commonwealth Office

London SW1A 2AH

22 February 1990

Presidential Inaugurations in Brazil and Chile

We have been invited to send a representative to the inaugurations of President Aylwin in Chile (11-13 March) and Collor in Brazil (14-15 March). Unfortunately the Foreign Secretary himself cannot go to either event. But he very much hopes that the Lord President will be able to represent the British government at both. Sir Geoffrey knows Collor and should have much in common with Aylwin since both men have legal backgrounds and connections with Wales.

The Prime Minister met Collor on 8 February. She told him that we wanted to pay more attention to Brazil. The Foreign Secretary believes that it is important that we should be represented at the Brazilian inauguration at a senior level.

It is important to Britain that Collor should succeed. Brazil is by far our largest export market in Latin America and is host to over £1bn of our overseas investment. Moreover, over one quarter of the world's rainforests are within her borders; an economic recovery and a reformed government machine will create the resources and the administrative structure necessary to preserve them.

In Chile the free election of a moderate Christian Democrat after fifteen years of authoritarian military rule is a significant event. It is consistent with our welcome to the end of the totalitarian rule in Eastern Europe that we should make a special gesture of support for this return to democracy in Chile. It is also, of course, important to set our relations with the new regime there on a sound footing for Falklands reasons.

President-elect Aylwin has invited the Prime Minister to attend the inauguration. I enclose a draft reply.

/Many

Many Latin American countries will be represented at both inaugurations by Heads of State. Vice-President Quayle will also attend as will former President Scheel from West Germany, the Deputy Prime Minister Durafour of France and the Prime Ministers of Italy, Spain and Portugal. This will provide opportunities for some useful bilateral talks.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

GL

M. Type a
letter in
FCO covering letter

GBA.

DRAFT LETTER FROM THE PRIME MINISTER

Sr Patricio Aylwin Azocar
President Elect of Chile

KK

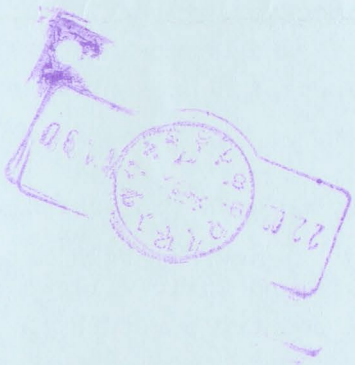
I am most grateful for your kind personal invitation to attend the inauguration ceremonies in Chile.

Unfortunately, ~~inescapable diary~~ my very heavy commitments prevent me from joining you. We have, therefore, asked Her Majesty The Queen to agree to appoint the Lord President of the Council ~~and Deputy Prime Minister,~~ Sir Geoffrey Howe, as Her Special Representative at the inauguration.

I take this opportunity to wish you every success in the task ahead, and hope that the good relations which already exist between Britain and Chile will be further strengthened following your country's return to democratic government.

I also renew most warmly the invitation which our Ambassador in Santiago, Mr Alan White, has already made to you, and hope you will visit Britian in the near future.

CR



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MY TELNO 490: PRESIDENTIAL ELECTIONS: COMMENT

SUMMARY

1. COLLOR'S VICTORY OFFERS REAL HOPE OF POSITIVE CHANGE IN BRAZIL. HE FACES INTRACTIBLE PROBLEMS AND WILL NEED INTERNATIONAL SUPPORT IF HE IS TO SUCCEED.

DETAIL

2. COLLOR'S VICTORY BY AROUND FOUR MILLION VOTES (THE OFFICIAL RESULT IS EXPECTED TODAY) OFFERS A REAL HOPE THAT BRAZIL WILL UNDERTAKE A PROGRAMME OF MUCH-NEEDED ADMINISTRATIVE, SOCIAL AND ECONOMIC REFORM. AS THE DEPUTY SECRETARY GENERAL OF ITAMARATY OBSERVED TO ME LAST NIGHT (WITH PARDONABLE EXAGGERATION): ''WE CAN NOW ASPIRE TO BE ANOTHER SPAIN OR PORTUGAL RATHER THAN FEAR BECOMING ANOTHER BANGLADESH''.

3. BUT BRAZIL FIRST HAS TO GET THROUGH THE NEXT 12 WEEKS. IN THE MONTH TO DECEMBER 15 PRICE INFLATION WAS 54 PER CENT. LAST WEEK THERE WAS EVIDENCE OF MANUFACTURERS AND RETAILERS RAISING PRICES FAR BEYOND CURRENT INFLATION LEVELS, RESPONDING PARTLY TO FEARS OF A LULA VICTORY, PARTLY TO RUMOURS OF NEW SHOCK MEASURES BY THE PRESENT GOVERNMENT. COLLOR'S VICTORY WILL HAVE A CALMING EFFECT AND THERE NOW SEEMS A FAIR CHANCE THAT THE SARNEY GOVERNMENT WILL BE ABLE TO MUDDLE THROUGH UNTIL 15 MARCH WITH A CONTINUING RISE IN THE MONTHLY INFLATION RATE, BUT WITHOUT THE ECONOMY GOING COMPLETELY OUT OF CONTROL. IF THIS PREDICTION IS CORRECT WE CAN SAFELY ASSUME THAT COLLOR'S INAUGURATION WILL TAKE PLACE AS PLANNED ON 15 MARCH. COLLOR NEEDS TIME TO PICK HIS MINISTERIAL TEAM AND TO PREPARE A FULL AND COHERENT PROGRAMME OF MEASURES TO BE PUT TO CONGRESS AS SOON AS HE TAKES OFFICE. IT IS CLEAR THAT HIS AIM IS TO GET AS BROAD BASED A GOVERNMENT AS POSSIBLE.

4. ON TAKING OFFICE HE WILL NEED TO TAKE IMMEDIATE MEASURES TO HALT THE INEXORABLE RISE IN THE RATE OF INFLATION, WHICH BY THEN IS LIKELY TO HAVE REACHED 70 PER CENT PER MONTH. HE WILL NEED ABOVE ALL TO DO SOMETHING PRETTY DRAMATIC ABOUT THE FISCAL DEFICIT IF HE IS TO HAVE ANY CHANCE OF RESTORING DOMESTIC AND INTERNATIONAL CONFIDENCE. SOME MEASURES WILL BE OF GREATER SYMBOLIC THAN REAL IMPORTANCE - REDUCING THE PUBLIC SECTOR PAYROLL, DRAMATIC DEMONSTRATIONS OF AUSTERITY IN GOVERNMENT SPENDING ETC. OTHER MEASURES - CUTTING SUBSIDIES, RESTORING THE FINANCIAL POSITION OF MAJOR STATE ENTERPRISES BY ALLOWING TARIFF INCREASES WILL BE UNPOPULAR, AND WILL COME UP AGAINST STRONG OPPOSITION FROM VESTED INTERESTS. ALTHOUGH I BELIEVE HE WILL BE ABLE TO SECURE A MAJORITY IN CONGRESS WHICH IS GENERALLY SUPPORTIVE OF HIS POLICIES, HE WILL NOT FIND IT EASY TO GET CONGRESSIONAL APPROVAL FOR EVERYTHING HE TRIES TO DO. HE WILL FACE DETERMINED OPPOSITION FROM THE PT, THE PDT AND OTHER FAR LEFT PARTIES. THE PSDB AND PART OF THE PMDB ARE LIKELY TO BE MORE SELECTIVE IN THEIR OPPOSITION. HIS FREEDOM OF MANOEUVRE WILL BE CONSTRAINED BY THE NEW CONSTITUTION WHICH, WHILE IT ALLOWS HIM TO PROMULGATE DECREES WITH IMMEDIATE EFFECT, PROVIDES THAT THEY LAPSE UNLESS APPROVED BY CONGRESS WITHIN 30 DAYS. MOREOVER THE MEASURES NEEDED TO COMBAT INFLATION, IF THEY ARE TO BE EFFECTIVE, ARE BOUND TO HAVE SOME RECESSIONARY IMPACT WHICH COULD PROVOKE SEVERE LABOUR UNREST, ESPECIALLY FROM TH CUT, WHICH IS VERY STRONG, PARTICULARLY IN THE PUBLIC SECTOR.

5. I AM IN NO DOUBT THAT COLLOR WILL BE IN REAL NEED OF INTERNATIONAL SUPPORT IF HE IS TO HAVE ANY CHANCE OF DOMESTIC SUCCESS. HE CLEARLY INTENDS TO TRAVEL EXTENSIVELY IN THE NEW YEAR. ACCORDING TO PRESS REPORTS HE PLANS TO GO TO WESTERN EUROPE (SPAIN, PORTUGAL, FRANCE AND THE UK ARE MENTIONED), THE FAR EAST (JAPAN AND PERHAPS SOME OF THE ''ASIAN TIGERS'') AND NORTH AMERICA. HE WILL DOUBTLESS ALSO MAKE AN EARLY VISIT TO ARGENTINA. ITAMARATY CONFIRM THAT THEY HAVE ALREADY BEEN ASKED TO TAKE SOUNDINGS IN SOME CAPITALS. COLLOR'S AIM, I BELIEVE, WILL BE TO PERSUADE FRIENDLY GOVERNMENTS, THE BANKS AND THE INTERNATIONAL FINANCIAL INSTITUTIONS THAT HE IS DETERMINED TO BRING ABOUT REAL AND NECESSARY CHANGES IN BRAZIL, GETTING PUBLIC FINANCES UNDER CONTROL, REDUCING GOVERNMENT INTERFERENCE IN THE ECONOMY, OPENING UP BRAZIL TO MORE COMPETITION, ENCOURAGING PRIVATISATION AND FOREIGN CAPITAL INVESTMENT, AND ABOVE ALL MAINTAINING AND DEVELOPING BRAZIL'S INTEGRATION IN THE INTERNATIONAL MONETARY AND FINANCIAL COMMUNITY. HE WILL BE LOOKING FOR ASSURANCES

THAT IF IN THE EARLY DAYS OF HIS ADMINISTRATION HE CAN SHOW REAL EVIDENCE OF TRANSLATING HIS WORDS INTO DEEDS, THE INTERNATIONAL COMMUNITY WILL BE READY TO GIVE A RAPID RESPONSE. THE BANKS WILL BE IN THE FRONT LINE, BUT GOVERNMENT GESTURES OF SUPPORT WILL BE VERY IMPORTANT TO HIM.

6. I BELIEVE MYSELF THAT THE CRUCIAL PERIOD FOR COLLOR WILL BE THE FIRST THREE MONTHS. IF HE MAKES REAL PROGRESS, CARRIES CONVICTION AND SECURES A DEGREE OF INTERNATIONAL SUPPORT, THE CONGRESSIONARY ELECTIONS IN OCTOBER 1990 COULD SIGNIFICANTLY STRENGTHEN HIS DOMESTIC POSITION. IF NOT, HE MAY FIND HIMSELF FACED FOR THE REST OF HIS TERM WITH A STRONG LEFT WING CONGRESS. IN SUCH CIRCUMSTANCES THE QUALITY OF GOVERNMENT COULD DEGENERATE RAPIDLY, AND BRAZIL COULD FACE A LONG SPELL OF POLITICAL INSTABILITY. THE WESTERN DEMOCRACIES AND JAPAN HAVE A STRONG INTEREST IN HIS SUCCESS.

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MY TELNO 487: PRESIDENTIAL ELECTIONS

SUMMARY:

1. COLLOR'S VICTORY ASSURED BUT LULA HAS NOT YET CONCEDED DEFEAT. POPULAR FRONT AND PDT THREATEN TO CHALLENGE THE OUTCOME, BUT UNLIKELY TO SUCCEED. A CALMING EFFECT ON FINANCIAL MARKETS.

DETAIL:

2. OFFICIAL FIGURES PUBLISHED TODAY, BASED ON COUNTING OF BALLOT BOXES COVERING 91.2 PER CENT OF THE ELECTORATE GIVE FOLLOWING RESULT:

COLLOR		31.95 MILLION
	LULA	29.46 MILLION
	BLANK BALLOT PAPERS	0.88 MILLION
	SPOILED PAPERS	2.93 MILLION
	ABSTENTIONS	9.64 MILLION

COLLOR THUS HAS 52.03 PER CENT AND LULA 47.97 PER CENT OF VALID VOTES CAST. RESULTS STILL AWAITED FROM OUT-LYING REGIONS WILL PROBABLY INCREASE COLLOR'S LEAD. FINAL RESULTS SHOULD BE IN BY 21 DECEMBER BUT IT IS NOW INCONCEIVABLE THAT COLLOR COULD BE BEATEN. NUMBER OF ABSTENTIONS WAS VERY HIGH, PARTLY BECAUSE OF VERY HEAVY RAINFALL IN MANY PARTS OF THE COUNTRY ON POLLING DAY.

3. LULA HAS NOT YET CONCEDED DEFEAT. HIS CAMPAIGN MANAGERS, AS WELL AS BRIZOLA (PDT), ARE TALKING OF CHALLENGING THE OUTCOME ON THE GROUNDS THAT

A) IN SOME AREAS PUBLIC TRANSPORT WAS INEXPLICABLY SUSPENDED ON POLLING DAY

B) ON FRIDAY 15 DECEMBER TV GLOBO BROADCAST EXTRACTS FROM THE TV DEBATE ON 14 DECEMBER SO EDITED AS TO SHOW LULA IN A POOR LIGHT. THERE IS CERTAINLY EVIDENCE THAT THE TV DEBATE ITSELF REVERSED THE TREND IN FAVOUR OF LULA AND TV GLOBO'S SUBSEQUENT COVERAGE MAY HAVE FURTHER HELPED COLLOR.

IT IS VERY UNLIKELY THAT EITHER OF THESE CLAIMS WILL BE ACCEPTED BY THE SUPREME ELECTORAL TRIBUNAL. IN GENERAL WE HAVE NO EVIDENCE THAT AS A WHOLE THE POLL WAS IMPROPERLY CONDUCTED, NOR OF ANY SIGNIFICANT VIOLENCE EITHER ON POLLING DAY OR SUBSEQUENTLY.

4. THE OUTCOME HAS CALMED THE FINANCIAL MARKETS. THE PARALLEL DOLLAR, WHICH HAS DROPPED STEADILY FROM ITS PEAK OF NC 25 ON 14 DECEMBER, CLOSED YESTERDAY AT NC 19.

5. THERE IS RENEWED TALK OF THE INAUGURATION BEING BROUGHT FORWARD BUT PRESIDENT SARNEY HAS SAID THAT HE WILL COMPLETE HIS MANDATE UNLESS CONGRESS DECIDES OTHERWISE. SUCH A DECISION WOULD REQUIRE A 60 PER CENT VOTE OF ALL THE MEMBERS OF BOTH HOUSES, SITTING SEPARATELY. THERE HAS BEEN NO SUGGESTION FROM THE COLLOR CAMP THAT HE WILL WISH TO INITIATE SUCH A MOVE.

6 I SHALL TRY TO DELIVER THE PRIME MINISTER'S MESSAGE OF CONGRATULATIONS PERSONALLY TO COLLOR AS SOON AS THE OFFICIAL RESULT IS ANNOUNCED OR LULA CONCEDES DEFEAT.

7. COMMENT TO FOLLOW.

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MESSAGE FROM THE PRIME MINISTER TO THE BRAZILIAN PRESIDENT-ELECT

1. IF COLLOR WINS THE ELECTION ON 17 DECEMBER, PLEASE PASS THE FOLLOWING MESSAGE TO HIM FROM THE PRIME MINISTER:

BEGINS: I SEND YOU WARM CONGRATULATIONS ON YOUR ELECTION AS PRESIDENT OF BRAZIL. THE RESTORATION OF FULL DEMOCRACY IS A GREAT MOMENT IN YOUR COUNTRY'S HISTORY. I GREATLY ENJOYED OUR TALK WHEN YOU VISITED LONDON. I LOOK FORWARD TO WORKING WITH YOU. ENDS.

2. IF LULA WINS PLEASE PASS THE FOLLOWING MESSAGE TO HIM FROM THE PRIME MINISTER:

BEGINS: I CONGRATULATE YOU ON YOUR VICTORY IN THE PRESIDENTIAL ELECTIONS. THE RESTORATION OF FULL DEMOCRACY IS A GREAT MOMENT IN YOUR COUNTRY'S HISTORY. I LOOK FORWARD TO MEETING YOU AND TO WORKING WITH YOU. ENDS.

3. THERE WILL BE NO (NO) SIGNED ORIGINALS.

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c: Brazil
APC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 December 1989

Thank you for your letter of 12 December covering contingency messages from the Prime Minister to the victor in the Brazilian Presidential elections. I think the Prime Minister would be content with them and they may both be sent to our embassy to be held pending the outcome of the elections.

Charles Powell

Bob Peirce Esq
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

12 December 1989

Dear Charles

Message from the Prime Minister to Brazialian President-elect

On 17 December, Brazil will hold the final round of her first direct Presidential elections since 1960. The two candidates to go forward from the first round (15 November) are Fernanda Collor de Mello and Luis Inacio da Silva (Lula). We recommend that the Prime Minister should send a message of congratulations to the victor.

The Prime Minister met Collor on 4 July during his visit to the UK. Since his visit he has developed further his plans to liberalise the Brazilian economy and to cut back public expenditure. He has spoken of responsible renegotiation of Brazil's external debt, and has taken a close interest in environmental issues.

Lula would probably be a rather less congenial President for UK interests. He is an old-fashioned leftist and it is difficult to see how his recipes could solve Brazil's massive economic problems.

I enclose draft message for both eventualities. If the Prime Minister agrees, our Embassy will hold these, and deliver the appropriate one as soon as the result is announced.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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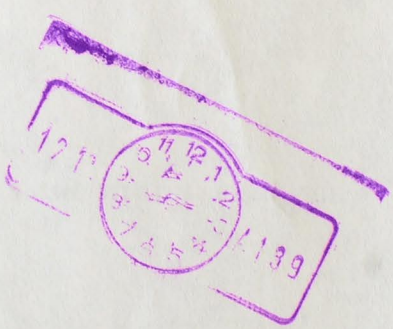
PROPOSED MESSAGES FROM THE PRIME MINISTER TO THE BRAZILIAN PRESIDENT-ELECT

If Fernando Collor de Mello wins:

I send you warm congratulations on your election as President of Brazil. The restoration of full democracy is a great moment in your country's history. I greatly enjoyed our talk when you visited London. I look forward to working with you.

If Luis Inacio da Silva:

I congratulate you on your victory in the Presidential elections. The restoration of full democracy is a great moment in your country's history. I look forward to meeting you and to working with you.



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Thank you for your letter of 17 August requesting an expression of Government support for MEL's bid for the Brazilian Air Force Tracker Programme.

I am afraid our information is that the matter has passed beyond the point where any further expression of HMG's support would help. I do not believe that the Brazilians were in any doubt about our general support for the bid. But in the absence of specific ECGD support (for reasons which are very well known to you) I fear that the balance tipped against MEL. MEL are to be congratulated for their initiative and determination, which got them so far.

I am so sorry that I am unable to be more helpful.

Neil Hamilton, Esq., M.P.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3

MO 6/20S

31 August 1989

Dear Dominic

MEL/PHILIPS AVIONICS SALE TO BRAZILIAN AIR FORCE

Thank you for your letter to Ben Slocock in the DTI of 18th July enclosing one from Neil Hamilton MP about MEL's bid to sell avionics to the Brazilian Air Force. It has been agreed with the DTI that MOD should take the lead in this, and I attach a draft reply to Mr Hamilton, agreed with the DTI, which takes the line that we do not consider that a further expression of HMG's support for this bid would be effective, at this stage, given the absence of ECGD credit cover.

By way of background, I should explain that Neil Hamilton MP sought support for MEL's bid for the Brazilian Air Force Tracker aircraft programme earlier this year. MOD sponsored the Company's bid for ECGD cover which went to two rounds of Cabinet level correspondence and was twice referred to the Prime Minister. Despite a good case based on the importance of the work to the Company in terms of jobs and future marketability of the avionics package, and the likelihood of COFACE (French equivalent of ECGD) support for the French competition, the Treasury's view that Brazil is currently a bad risk prevailed and cover was not offered.

At the time of considering possible ECGD support, the Treasury were not convinced (following bilateral discussions) that COFACE would offer any significant credit support to MEL's competitor, given the country risk and purported general concern of the French Finance Ministry at their existing levels of export support. In the event, it seems that COFACE support (at whatever level) has tipped the balance of this competition in favour of the French despite the very competitive price offered by MEL.

MEL have done very well to stay in the competition without ECGD support, but sadly, we believe that they have now lost. Our Embassy in Brasilia has supported the Company as far as possible and agrees with the general view here that a letter of support from HMG would have very little effect.

Dominic Morris Esq
10 Downing Street

Mr Hamilton has also written to the Brazilian Air Minister and has unfortunately made threats to block the French bid on grounds of unfair competition. This is frankly unhelpful and counter-productive and the draft reply accordingly cautions against pursuing this line which, Departments agree, is unsoundly based.

I am copying this letter to Peter Wanless (HM Treasury), Stephen Wall (FCO) and Ben Slocock (DTI).

Yours ever

Sue

(S J AMBLER-EDWARDS)(Miss)
Private Secretary

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 August 1989

MEL/PHILIPS AVIONICS SALE TO BRAZIL AIR FORCE

I attach a faxed letter from Neil Hamilton MP which sets out the current position on the MEL bid for this contract. As you will see, Mr. Hamilton is looking for a 'political' message of support. I should be grateful for your early advice on whether such a message should be sent and a draft reply which the Prime Minister could send to Mr. Hamilton. Could I ask for this by Wednesday, 23 August.

DOMINIC MORRIS

Ben Slocock, Esq.,
Department of Trade and Industry

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 August 1989

I am writing on behalf of the Prime Minister to acknowledge receipt of your facsimile letter of 17 August.

This is receiving attention and a reply will be sent to you as soon as possible.

DOMINIC MORRIS

Neil Hamilton, Esq., M.P.

FROM NEIL HAMILTON MP

TEL:01-219-5681
0860-301-703

HOUSE OF COMMONS
LONDON SW1A 0AA

Rt.Hon.The Prime Minister,
10 Downing Street,
London, SW1.

17th August 1989.

Dear Prime Minister,

Firstly may I apologise for not being able to sign this letter personally, but I am currently on a family holiday in Cornwall and my Assistant is having to deal with this from London.

My Assistant, John Kennedy, spoke to Pamela Main at your residence in Austria a few moments ago and explained some of the background.

I originally wrote to you with regard to this important British Bid on 27th April 1989. Although the letter concentrated on ECGD cover into Brazil, which was not forthcoming, it did cover the merits of this British bid.

Since that letter MEL have put together a private finance package which equalled the French competitor (Thomson CSF) who were heavily propped up by COFACE.

The present position is as follows:

1) The Head of the Procurement Executive of the Brazilian Air Force (DIMA) made a presentation to the Air Minister and members of his His Command on 8th August 1989. In this presentation DIRMA strongly recommended that Air Force select MEL as its chosen contractor for the supply of British Avionic Equipment for the Update of the P-16 Grumman Tracker Aircraft which is in service with the Air Force.

The Head of the Brazilian Procurement Executive made the following points:

1) MEL's technical solution was totally compliant with the Air Force's requirements and was preferred by both CTA (equivalent of RAE) and by the operational squadron.

2) MEL had demonstrably identified the more advanced technology, in both quantitative and qualitative terms, would be transferred to Brazil if the MEL solution were chosen than if Thomson were selected. This position, and the commitments made by MEL were totally acceptable to DIRMA.

3) The MEL Proposal had ample scope for amendment/ modification /enhancement to render it capable of meeting any of the Brazilian requirements, be they operational, technical or financial.

This Presentation was followed by the Financial Secretariat of the Air Force, the following points were made:

1) The French offer had French Government backing which meant that there would be "new money" made available to the Brazilians. The British offer did not have the support of the British Government and would thus not have this "new money".

2) The Thomson offer would use Brazilian Industry in the form of Embraer, MEL would use other elements of Brazilian Industry.

Although no formal decision has been formally announced, sources suggest that the following is currently the situation:

1. The Brazilian Air Minister expressed at the end of both presentations that his preference would be for the Embraer/Thomson solution because:

   a) As the French offer was Government supported and thus included "new money", it would be more politically attractive to the Brazilian Government than that from MEL.

   b) Embraer as a Government owned industry controlled by the Air Minister, needed as much work as possible to help improve its financial situation.

I believe it will assist the British case if the Brazilians at the highest level, are left in no doubt that the British Government supports this MEL bid and applaud the Companies entrepreneurial spirit in putting together a private venture funding which provides cheaper financing than the French Government backed package offered by Thomson CSF.

Yours ever,

NEIL.

DAS

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 July 1989

Dear Bob,

PRIME MINISTER'S MEETING WITH SENHOR COLLOR DE MELLO

The Prime Minister had a talk this morning with Senhor Collor de Mello, who is currently the leading candidate in the Brazilian Presidential Election. Although his English is superficially good, it is not actually up to sustained discussion. You will wish to consider whether to have an interpreter present for his meeting with the Foreign Secretary.

The discussion was rather general. The Prime Minister gave an account of the Government's experience with privatisation. Senhor Collor de Mello said that he had been impressed by what had been achieved in the United Kingdom and hoped to draw from our experience in tackling the enormous, inefficient and corrupt State sector in Brazil.

The Prime Minister raised the subject of debt, stressing the need for Brazil to abide by its obligations and behave in an orthodox manner. Senhor Collor de Mello spoke with admiration of Mexico's efforts at debt reduction. Interest payments were an enormous burden for Brazil. In 1980, Brazil's debt had been (I think) $60 billion. Since then, she had paid $105 billion in interest but her debt was now $112 billion. The most pressing need was for a fixed rate of interest on Brazil's debt, so she knew where she stood.

Senhor Collor de Mello disparaged the lack of environmental policies of the present Brazilian Government, but stressed that the major industrialised countries must bear the main blame for, and the costs of, environmental pollution. He handed over the enclosed proposal for an international levy on environmental pollution, which he said he had also given to Chancellor Kohl, Senor Gonzalez and M. Rocard.

At the end of the meeting, Senhor Collor de Mello pressed the Prime Minister to pay a visit to Brazil: the Prime Minister replied that she would wait and see the outcome of the elections there.

The Prime Minister commented afterwards that Senhor Collor de Mello did not seem to have many clearly defined political ideas apart from privatisation and tackling the State sector. He was also very vague when questioned about the organisation of his election campaign, although he said that he was travelling widely through Brazil and attracting very large crowds.

I am copying this letter and enclosure to Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

Yours ever,

C. D. POWELL

R. N. Peirce, Esq.
Foreign and Commonwealth Office

Brazil

ENVIRONMENTAL PROPOSAL: INTERNATIONAL LEVY ON ENVIRONMENTAL POLLUTION

A) This levy will be calculated on the basis of the annual emission of toxic gases and other discharges into the atmosphere, the soil and into the rivers and oceans of the planet.

B) The resources thus collected would serve to set up programmes of the United Nations (under whose authority the implementation of this proposal would fall) for ecological preservation or regeneration of ecosystems affected partially or in their totality.

C) According to the norms of fiscal law, the bases for levying such a tax might be the following:

- Generating fact: annual emission of pollution in tonnes;
- Basis for calculations (aliquote): US$ 100 per tonne per annum of pollution;
- Passive agent: the polluting country;
- Active agent: the United Nations.

Observation: the present proposal has already been brought to the attention of the Chamber of Deputies in Brasília by Federal Deputy Maurílio Ferreira Lima where it was the subject of parliamentary debate.

Fernando Gallo de Mello (Brazil)

cc PC
BV/cp

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

3 July 1989

Dear Charles,

Brazil: Call on Prime Minister by Senhor Collor de Mellor, 4 July at 9.30 am

The background to this call is set out in Stephen Wall's letter to you of 14 June. I attach a personality note on Sr Collor. His high standing in the polls has strengthened in the meantime. He will be coming to London after a visit to Portugal, Spain, France, West Germany and Italy. He has been received at Head of Government level throughout. (I attach a copy of Brasilia telno 242 about his meeting with Chancellor Kohl.) From London he returns to Brasilia.

The Foreign Secretary will see Sr Collor on 5 July and we expect him to discuss the new Government in Argentina and the Falklands. We suggest that the Prime Minister might concentrate on economic themes, including privatisation, and on environmental issues.

Sr Collor is well aware of the need to curb the overblown public sector in Brazil which is at the root of its current economic problems. While Governor of Alagoas State, he reduced the number of public employees there from 74,000 to 48,000. His assault on the old political establishment in Brazil and his emphasis on the need to overhaul the government machine have struck a chord with Brazilian voters. He has also indicated that he will take determined steps to bring Brazil's huge internal debt under control. His other economic ideas are not yet well-formed, though he is generally in favour of economic liberalisation and more competition. He has, however, made some unhelpful remarks about Brazil's external debt, suggesting that Brazil's need for growth is more important than meeting interest payments. This will be an opportunity to stress to Sr Collor how important it is that Brazil honour her international financial obligations.

Sr Collor will be very interested to hear from the Prime Minister about the UK experience of privatisation, and he will on 5 July be discussing this with a panel of experts at a meeting chaired by Mr Eggar. He will want to explore how far

/our

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our experience can be transferred to a developing country. At present over half of Brazil's GNP is generated by public sector industries, which provide important sources of political patronage, and which are usually very inefficient.

Sr Collor has described the present Brazilian government's neglect of the environment as "criminal", and says he would as President give political and budgetary priority to this question. He will attend a meeting on 5 July to discuss rainforest issues at the Royal Geographical Society (who have run a successful study of forest regeneration on Maracá Island in the Amazon).

Sr Collor may ask about recent media reports that UK companies (especially BP) have been involved in the destruction of the Amazon rainforests. This has sparked Parliamentary interest (the Prime Minister answered a PQ by Allen McKay MP on 27 June). The Prime Minister may wish to refer to UK public interest in this issue. If asked about our attitude to the allegations against BP, she could point out that Sr Mesquita, the President of IBAMA (the Brazilian environmental organisation) has just visited the operation concerned (in which BP have a minority shareholding). Mr Patten will be visiting Amazonia during an official visit to Brazil next week, and will sign a Memorandum of Understanding on environmental co-operation with the Brazilian authorities.

Sr Collor will be accompanied on his call on the Prime Minister by his Economic Adviser, Zelia Cardoso de Mello (no relation), a competent economist with good English.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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FOR J V EVERARD, SAMD, FCO

PRESS REPORTS ON COLLOR'S MEETING WITH CHANCELLOR KOHL

1. YOU MAY WISH TO BE AWARE IN ADVANCE OF PRIME MINISTER'S MEETING WITH COLLOR ON MONDAY OF THE MAIN ISSUES WHICH CAME UP DURING HIS MEETING WITH CHANCELLOR KOHL YESTERDAY (28 JUNE). THE MAIN THEMES WERE THE EXTERNAL DEBT AND THE ENVIRONMENT. COLLOR APPARENTLY ASKED FOR THE SUPPORT OF CHANCELLOR KOHL FOR THE PROPOSAL BY PRESIDENT MITTERAND THAT PART OF THE EXTERNAL DEBT OF THE COUNTRIES OF THE THIRD WORLD SHOULD BE REDUCED. ACCORDING TO COLLOR'S PRESS ADVISER CLAUDIO HUMBERTO ROSA E SILVA 'KOHL SAID THAT HE DID NOT ONLY SUPPORT THE PROPOSAL, HE ACTUALLY HELPED DEVELOP IT'.

2. THE ENVIRONMENT WAS APPARENTLY DISCUSSED FOR ALMOST AN HOUR WITH THE MINISTER OF THE ENVIRONMENT, KLAUS TOPFER. THE MINISTER SPOKE OF GERMAN CONCERN WITH THE AMAZON FOREST WHICH HAD BEEN CONSTANTLY IN THE EUROPEAN PRESS SINCE THE DEATH OF CHICO MENDES. COLLOR SAID THAT 'THE NEGLECT OF THE BRAZILIAN GOVERNMENT IN RELATION TO THE AMAZON IS CRIMINAL', ACCORDING TO ROSA E SILVA. BUT HE ALSO SAID THAT PEOPLE SHOULD CLEAN UP THEIR OWN ACTS BEFORE STARTING ON CLEANING UP OTHER PEOPLES'.

3. COLLOR ALSO APPARENTLY TALKED ABOUT HIS PROPOSAL TO CREATE A UN FINE ON COUNTRIES WHICH POLLUTE THE ENVIRONMENT. HE SAID THAT IF ELECTED HE WOULD CREATE A SPECIAL SECRETARIAT FOR THE ENVIRONMENT REPORTING DIRECT TO THE PRESIDENCY. HE APPARENTLY INTENDS TO GIVE POLITICAL AND BUDGETARY PRIORITY TO THE ENVIRONMENTAL QUESTION.

4. YOU MAY ALSO BE INTERESTED TO KNOW THAT THE PRESS REPORT COLLOR AS SAYING IN ROME ON 27 JUNE THAT HIS PARTY (THE PRN) HAS AFFINITIES WITH EUROPEAN SOCIALIST PARTIES (SAID AFTER A MEETING WITH BETTINO CRAXI, SECRETARY GENERAL OF THE ITALIAN SOCIALIST PARTY). COLLOR IS REPORTED TO HAVE SAID THAT EUROPEAN SOCIALISM IS BASED ON THE EFFICIENCY OF THE STATE MACHINE AND ON

THE BASIC NECESSITY OF SOCIAL WELL BEING. 'ON THESE POINTS WE ARE IN AGREEMENT', HE SAID.

NEWINGTON

YYYY

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MRS EVANS, OVIS/COI

NNNN

COLLOR DE MELLO, Fernando Affonso

Ex-Governor of North Eastern State of Alagoas. Presidential candidate. Born 12 August 1949 in Rio de Janeiro.

Member of well-known, politically influential and wealthy Alagoas family. Graduated in Economic Sciences from Federal University of Alagoas. Member of Fiscal Council of Brazilian Association of Radio and Television Stations 1967-77. President of Alagoas Media Group (owned by family and includes TV station linked to Globo Group) in 1978. Prefeito (Mayor) of Maceio 1979-1982. Federal Deputy 1982-86. Governor (PMDB) of State of Alagoas between March 1987 and May 1989, when he resigned to stand as candidate of the PRN (National Re-construction Party) for the Presidential election in November 1989.

As Governor of Alagoas he became famous nationally for his campaign against the "Maharajas", highly paid judges, civil servants and political appointees, and for his much publicised advocacy of reduction to four years of President Sarney's mandate. His stewardship of Alagoas has not been without criticism, though he can and will claim that his opposition to President Sarney deprived the State of federal funds. In 1970s acquired reputation for being something of a playboy (he was a male model for a time) and this, together with his support for the right wing Maluf in the 1985 Presidential election campaign and an incident when his father shot dead a politician (but not the one he was aiming for) in the Senate and went largely unpunished, are likely to be much used by Collor de Mello's political opponents during the Presidential campaign.

Married first in 1975 to Lilibeth Monteiro de Carvalho, youngest daughter of a prominent Rio businessman. Their wedding was described as one of the most sumptuous in history of Rio society. Separated in 1981. Second wife, Rosana, is a 24 year old student. Two children from first marriage. Speaks good English and French, some Italian and Spanish. He is an accomplished all-round sportsman and, unusually, is a karate black belt holder. He undoubtedly has charm and a warm personality and is able to project sincerity and integrity which has contributed to his phenomenal rise in the polls. Other "dirt" in his private life is likely to surface, but this is very much the stuff of Brazilian politics.

PRIME MINISTER

MEETING WITH SENHOR COLLOR DE MELLO

You are to see Senhor Collor de Mello tomorrow morning. He is currently the leading candidate in the Brazilian presidential elections which will be held in November, standing on a broadly conservative platform. The fact of the meeting is apparently attracting enormous attention in Brazil, given the paucity of our contacts with South America in recent times.

Collor de Mello is just about what one might expect from Brazilian politics. He is young (39), handsome (used to be a male model), wealthy and a karate black belt. His father was a prominent politician who managed to shoot a colleague in the Senate, but not actually the one he was aiming for! No particular penalty seems to have attached to him for this.

The main planks of Sr. Collo's election manifesto are privatisation and cutting down the public services, which are the bane of Brazil. While Governor of one of the main States, he reduced the number of public employees by close to 50 per cent. He is particularly interested in our experience of privatisation. He is also well informed on environmental questions. You will recall that Chris Patten is currently on a visit to Brazil where he will sign a Memorandum of Understanding on environmental co-operation.

Subjects you might discuss are:

- Privatisation. Over half Brazil's GNP comes from public sector industries which are notoriously inefficient. Privatisation would, among other things, be a good way for dealing with Brazil's debt problem.

- Debt. He has made some rather unhelpful remarks about this, suggesting that Brazil's needs must take priority over payment of interest. You will want to stress the importance of Brazil meeting her obligations. He apparently has exaggerated expectations of President Mitterrand's plans for reducing third world debt at the Economic Summit.

- Environment. You will want to mention the great interest now being shown in Western society on environmental issues and the importance attached to preservation of the tropical rain forests. The subject will come up at the Paris Economic Summit. We are sensitive to the need not to intrude on Brazil's sovereignty. Sr. Collo has incidentally produced a proposal for the United Nations to fine countries who pollute the environment.

- Argentina. You might like to ask what he expects of President Menem and his policies.

C. D.!

C. D. POWELL
3 July 1989
KAYAXD

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 June 1989

BRAZIL: VISIT OF SR. COLLOR DE MELLO

Thank you for your letter of 14 June about the visit of Sr. Fernando Collor de Mello. The Prime Minister could see him at 0930 on Tuesday 4 July.

C. D. Powell

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



10 DOWNING STREET

Charles

0930 on Tuesday
4th July.

AP
16/6

(1)

10 DOWNING STREET

Prime Minister

Would you agree to see him?

CDP

Amanda

Can we have 30 minutes in early July? CDP

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

14 June 1989

Dear Charles,

Brazil: Visit of Sr Collor de Mello

Sr Fernando Collor de Mello (Collor), the Centre-Right candidate who looks likely to win the Brazilian Presidential election in November, wants to come to the UK soon, as part of a wider European tour. He is particularly interested in our experience of privatisation. He has asked if he could meet the Prime Minister, whom he greatly admires.

The Foreign Secretary hopes that the Prime Minister could take this engagement on. Collor is an unusual phenomenon. As Governor of the state of Alagoas, he has made a name for himself through his campaign to clean up and cut down the public administration. His appeal to Brazilian voters (he currently commands 43% of voter preferences, far ahead of his rivals) stems largely from his offer of an alternative to the stale populist and corporatist solutions to Brazil's enormous problems proposed by the other mostly left-wing candidates, as well as from his youth (he is 39 years old), charisma and energy. A visit to Britain would be an excellent opportunity to expose him to our thinking on a range of important issues - particularly debt, the environment, and economic management - on which he appears to be still thinking his policies through. The certain boost to his campaign which a call on the Prime Minister would give would also set us off to a good start with his administration, if he wins.

Brazil is important to us, as the non-Communist world's 8th largest economy and our largest export market in the region. It has become a major focus of industrial environmental attention, because of the rain forests issue. Given the onset of the electoral campaign and the enormous problems which will face him if or when he becomes President, it is unlikely that Collor would be able to pay a visit to the UK early in his Presidential term. This opportunity is, therefore, unlikely to recur.

Collor has asked about a possible call on 30 June. I understand the Prime Minister is very busy that day, but Collor has made clear that he would be prepared to rejig his schedule within the period 30 June to 7 July to fit in with the Prime Minister's diary, if she can see him.

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 May 1989

Dear Mr. Scott,

Your further letter of 3 April to the Prime Minister reported the likely degree of official involvement in your French competitor's bid for the Brazilian avionics contract. After very careful consideration, the Government have come to the conclusion that the prospect of greater French official support than was first thought likely did not alter the basis of the decision that ECGD cover should not be extended in present circumstances to contracts of this kind in Brazil.

As I explained in my letter of 20 March, ECGD's guarantees for new business on medium term credit in Brazil are intended normally to support only British goods or services of direct economic benefit to that country, and therefore to its creditors, given that ECGD's existing debts are being rescheduled for payment over a long period of time in the future.

I am sorry I cannot be more helpful.

yours sincerely,

(C. D. POWELL)

R. J. Scott, Esq.

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON
SW1

Department of Trade and Industry

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London SW1H 0ET

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Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PB1BCP
Your ref
Date 8 May 1989

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Not attached
Please close
Op

Dear Charles

ECGD COVER FOR BRAZIL
MEL/PHILIPS AVIONICS SALE TO AIR FORCE

Thank you for your letter of 3 May, in response to mine of 20 April, in which you conveyed the Prime Minister's final decision to decline ECGD cover for the potential MEL/Philips sale to Brazil. I now attach draft replies to the letters received from Neil Hamilton MP (for the Prime Minister's signature) and Mr R J Scott, of MEL (for your signature).

In his letter to the Chief Secretary, enclosed with that to the Prime Minister, Mr Hamilton mentioned two cases where he believed ECGD cover had been offered for Brazilian contracts. I should explain that the two cases of potential ECGD supported contracts were somewhat exceptional and do not of themselves alter the main arguments in the MEL/Philips case.

ECGD cover for the helicopters was considered by Ministers as an exceptionally deserving case, although the contract is far from being firm and cover has not been reserved for it as yet. The Rolls Royce engines contract is firm but again a case for exceptional treatment was made, on the ground that the engines would be incorporated in Brazilian manufactured aircraft for re-export. It does not seem appropriate for the Prime Minister's reply to Neil Hamilton to go into these matters, which may indeed involve commercially or politically sensitive information.

Copies of this letter go to Bob Peirce (FCO), Brian Hawtin (MOD), Carys Evans (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

Yours
Ben.

BEN SLOCOCK
Private Secretary

the Enterprise initiative

DRAFT FOR SIGNATURE OF PRIVATE SECRETARY TO THE PRIME MINISTER

TO:

R J Scott Esq
Group Managing Director
MEL
Manor Royal
Crawley
West Sussex
RG10 2PZ

Your further letter of 3 April to the Prime Minister reported the likely degree of official involvement in your French competitor's bid for the Brazilian avionics contract. After very careful consideration, the Government have come to the conclusion that the prospect of greater French official support than was first thought likely did not alter the basis of the decision that ECGD cover should not be extended in present circumstances to contracts of this kind in Brazil.

As I explained in my letter of 20 March, ECGD's guarantees for new business on medium term credit in Brazil are intended normally to support only British goods or services of direct economic benefit to that country, and therefore to its creditors, given that ECGD's existing debts are being rescheduled for payment over a long period of time in the future.

I am sorry I cannot be more helpful.

PB1BDM

Brazil: Relations, Say 82.



DRAFT FOR SIGNATURE OF PRIVATE SECRETARY TO THE PRIME MINISTER

TO:

R J Scott Esq
Group Managing Director
MEL
Manor Royal
Crawley
West Sussex
RG10 2PZ

2 letters.

Your further letter of 3 April to the Prime Minister reported the likely degree of official involvement in your French competitor's bid for the Brazilian avionics contract. After very careful consideration, the Government have come to the conclusion that the prospect of greater French official support than was first thought likely did not alter the basis of the decision that ECGD cover should not be extended in present circumstances to contracts of this kind in Brazil.

As I explained in my letter of 20 March, ECGD's guarantees for new business on medium term credit in Brazil are intended normally to support only British goods or services of direct economic benefit to that country, and therefore to its creditors, given that ECGD's existing debts are being rescheduled for payment over a long period of time in the future.

I am sorry I cannot be more helpful.

PB1BDM

DRAFT LETTER
FOR SIGNATURE OF PRIME MINISTER

Neil Hamilton Esq MP
House of Commons
London SW1A OAA

SW2 AVA

BRAZILIAN AIR FORCE AVIONICS
MEL LTD

Thank you for your letter of 27 April about MEL's negotiations for the avionics contract with the Brazilian Air Force. As I expect you know, It has been decided with some regret that ECGD support should not be extended to this contract.

It was a difficult decision since it is always painful to have to withhold help from a company that is so energetically pursuing export orders. However, as you appreciate, ECGD's medium term cover for debt rescheduling countries like Brazil is normally intended to be applied to goods and services of direct economic benefit to that country.

I will not attempt to deal with all the points made in your letter, particularly since you have already discussed this case with the Chief Secretary to the Treasury, but there are one or two aspects which perhaps require comment. First, while it is perfectly true to say that Brazil has not defaulted on previous defence equipment obligations, the payment maturities have of course been deferred with all others so far rescheduled under

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with
Charles
Powell
MC

the Paris Club multilateral debt agreements. Second, I do not think it would be appropriate for me to go into the circumstances of other cases in Brazil for which ECGD cover may or may not be provided, although you may rest assured that your observations on these matters have been noted.

DC13.T5

Brazil - Rds Sept 62



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 May 1989

Dear Ben,

ECGD COVER FOR BRAZIL: MEL/PHILIPS AVIONICS SALE TO AIR FORCE

The Prime Minister has now given further consideration to the question raised in your letter of 20 April whether ECGD support should be provided for MEL for their bid to sell avionics to the Brazilian Air Force. She has commented that it seems to her quite wrong to extend cover when the country concerned is already in considerable difficulty with debt rescheduling.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Brian Hawtin (Ministry of Defence), Peter Wanless (H.M. Treasury) and Trevor Woolley (Cabinet Office).

Yours sincerely,

Charles Powell

C. D. POWELL

Ben Slocock, Esq.,
Department of Trade and Industry.

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R415.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

CDS 415

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

3 May 1989

Dear Charles, clap

ECGD COVER FOR BRAZIL: MEL ELECTRONIC PACKAGE

Last night Neil Hamilton MP discussed with the Chief Secretary his letter of 27 April about ECGD cover for this MEL contract. You will recall that Mr Hamilton has also written to the Prime Minister and you have requested a consolidated reply by 12 May.

Mr Hamilton was extremely civilised and made a selection of the points in his letter in a straight forward and reasonable manner. He suggested that the Brazil contract was a sweetener for selling the package elsewhere and said that Brazil had never defaulted on a defence contract. The Chief Secretary accepted there had been no "default" as such but said that Brazil had imposed a 6 month moratorium last year and subsequently rescheduled their debts, including a Brazilian naval order for Corvettes.

Mr Hamilton said that he had firm evidence that COFACE were now providing cover and that the French were keen to win the Brazilian contract. The Chief Secretary noted this. ECGD have subsequently informed us that an offer of French cover is highly likely although they have no formal confirmation of it.

Mr Hamilton had been told that MEL needed to provide contract details to the Brazilians by 8 May and that the contract would be awarded in 2 or 3 weeks time. The Chief Secretary explained that MEL's package was still being considered by Ministers.

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For the record Mr Hamilton said nothing to alter the Chief Secretary's view that ECGD should not provide cover for this contract. The Chief Secretary still thinks that we should not be lending money to a bankrupt country for an investment which will not help that country to pay its debts.

I am copying this letter to Ben Slocock (DTI), Bob Peirce (FCO) and Ian Woodman (MOD)

Yours sincerely,

Peter Wanless.

PETER WANLESS
Assistant Private Secretary

SRWBYP

(2)

PRIME MINISTER

BRAZIL: MEL CONTRACT

You saw the papers about this contract last night and confirmed your earlier view that we should not provide ECGD cover for it because of Brazil's parlous financial state. Neil Hamilton, MP, came to see me this morning to support the company's case for credit. He did not actually have any new points which have not featured in earlier correspondence. He claimed the project had a high priority for the Brazilians and would go ahead regardless of our refusal to give credit cover. This just meant that the French would win it. Brazil had a very good record of not reneging on its military debts. If MEL failed to get the contract, their prospects of future business would be seriously affected: they had put a big effort into this one but would not be able to afford to keep up the sales effort on the same level in future. Indeed they would probably scale down their operations.

I said that Ministers had already taken a view against ECGD cover and I very much doubted whether this would change. Government simply did not think it was right to encourage countries which are already in financial difficulty to take on additional commitments. We had had some unfortunate experiences in this field. I pointed out that MEL were in fact in partnership with Phillips of the Netherlands who were a major international company with substantial resources and ought to be able to raise private finance, even though I acknowledged this would be more expensive.

Mr. Hamilton raised one or two points about the DTI's handling of these matters. I suggested that he should discuss them further with Alan Clark.

I do not suggest that you should reverse your decision on this, but feel honour-bound to report Mr. Hamilton's representations. It was clear that he is not expecting a favourable decision: he had seen John Major yesterday.

CDP.

(C. D. POWELL)

3 May 1989

(1)

PRIME MINISTER

For some reason, the top copies of the attached papers seem to have gone missing. It is marked on your box list, but apparently (and I emphasise apparently) not returned.

We have no record whether you have seen the papers or not. Could I possibly ask you to work off the copies, please?

C.D.P.

CHARLES POWELL
2 May 1989

Have found original now, in other box

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 28 April 1989

I enclose a copy of a letter the Prime Minister has received from Mr. Neil Hamilton, M.P.

I should be grateful for a suitable draft reply to reach this office by Friday 12 May.

Would you please prepare your draft reply in conjunction with Brian Hawtin (Ministry of Defence), Bob Peirce (Foreign and Commonwealth Office) and Carys Evans (Chief Secretary's Office) to whom I am copying this letter and enclosure.

(C. D. POWELL)

Gareth Jones, Esq.,
Department of Trade and Industry.

PRIME MINISTER

ECGD COVER FOR BRAZIL

You will recall there was a dispute between Departments on whether we should give ECGD cover for an attempt to sell avionics equipment to the Brazilian Air Force. The Treasury thought we should not, on the grounds that it would be wrong to increase ECGD's exposure when the Brazilian economy is in such a mess. Other Departments were prepared to give limited cover on a risk sharing basis with the company. You took the side of the Treasury, mainly on the grounds that the evidence suggested that the French - who are the main competition - were not providing full cover.

The situation has now changed in two respects:-

- There is good evidence that the French are providing full cover, despite their assurances.

- It is clear that the company will accept cover on a risk sharing basis, which would mean that ECGD's liability would be around £35m.

The Treasury continue to resist. All other Departments think we should now give cover to keep the British company in the running, but would make it dependent on the latest UK/Brazilian debt rescheduling agreement being signed.

Stick to your earlier position? Yes - it seems to me quite wrong to underwrite when the country concerned is already in considerable difficulty with debt-rescheduling

or

Go along with cover on a risk sharing basis in the light of new evidence about French intentions?

CDP

Charles Powell
20 April 1989

MJ23DLI

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

. Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
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Direct line 215 5623
Our ref PS5CGK
Your ref
Date 20 April 1989

Dear Charles,

ECGD COVER FOR BRAZIL : MEL/PHILIPS AVIONICS SALE TO AIR FORCE

Your letter of 3 April enclosed a copy of a further letter of the same date from Mr R J Scott of MEL pointing out the extent of French official support for a competitive bid on the avionics sale to the Brazilian Air Force worth around £40m. You will recall that the Foreign Secretary's minute of 10 March to the Prime Minister and Treasury's letter of 10 March to you reported the disagreement between Departments on whether ECGD support should be provided for MEL. The Prime Minister indicated that she shared the Chief Secretary's concerns on the case, particularly since it seemed that the French were not providing full cover. Subsequently I provided a draft reply for you to send to Mr Scott regretting that in present circumstances it was felt that ECGD's accounts should not be exposed to the payment risk in this case.

It has now become clear, as Mr Scott's letter says, that the French official support for their exporter, Thomson, is significantly greater than they had indicated earlier. DREE (the responsible French Government department) now say that they could decide to support French equipment for up to six aircraft on a risk sharing basis, ie on 64% of the French content. In addition, it is now emerging that, for the present, the Brazilians are likely to place orders for six aircraft avionics packages only.

the Enterprise initiative

dti

the department for Enterprise

The FCO, MoD and Treasury have agreed the terms of this further submission in case the Prime Minister considers that the evidence of greater French Government involvement justifies another look at the question of ECGD support. Depending on the decision, I shall of course provide a suitable reply to Mr Scott's letter.

The background is as follows. The Secretary of State for Defence, supported by my Secretary of State, proposed that ECGD DX cover should be made available for this contract under the Special Arms Account. The Foreign Secretary recommended that the risks be shared between the company and ECGD. The Chief Secretary, however, believed that to back the deal would only add to ECGD's financial problems given Brazil's doubtful economic prospects, at least in the short term (the risk is that new credits might be caught in some future round of debt rescheduling).

MEL's letter of 3 April now asks the Prime Minister to review the decision that ECGD support should not be authorised for this business, in the light of documentary evidence obtained by MEL on the extent of support by the French Government. MEL have been able to produce a convincing translation of the French offer through Banque Paribas which refers to a guarantee of 64% of the French content of the first six aircraft for repayment over 5 years.

Treasury maintains its position. It considers that the case for refusing cover to MEL as set out in your letter of 20 March to Mr Scott remains compelling. This rested explicitly on the need not to breach the terms of DX cover (which is not normally available for arms sales) and not to expose ECGD's accounts to the payments risk in present circumstances. The Treasury considers that the latest demand by the Brazilians for interest rate concessions in their bilateral negotiations with ECGD over rescheduled Paris Club debt reinforces these arguments.

The Treasury does not consider that the evidence from MEL that the French may provide additional cover for the Thomson bid for this contract alters the fundamental point. It notes that contrary to the MEL claim, the French authorities say that no final decision on cover has been taken. In any case, the UK needs to take its independent judgement on credit policy. The Treasury considers the present case unacceptable.

dti
the department for Enterprise

ECGD, DTI, MoD and FCO now recommend that, in order to match what we can now reasonably anticipate the French position to be and keep MEL in the running, ECGD should be authorised to give an indication of cover on a risk sharing basis (64% ECGD: 36% MEL) for up to a six aircraft equipment package under the Special Arms Facility. The contract value would be about £40m and ECGD's liability, taking account of interest, would be around £35m. In the event that the French increase their cover beyond the first six aircraft packages, ECGD would like to have the opportunity of raising the matter again. ECGD cover would be dependent on the latest UK/Brazilian debt rescheduling agreement being signed, a condition that attaches to all of ECGD's larger offers of cover under the £250m DX limit at present.

I am copying this letter to Stephen Wall (FCO), Brian Hawtin (MoD), Peter Wanless (Treasury), and Trevor Woolley (Cabinet Office).

Yours ever

Ben Slocock.

BEN SLOCOCK
Private Secretary

the enterprise initiative

Brazil UK | Forazil Rels

Sept 82



2nd Copy.
Dict with Pm.

dti
the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

. Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

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Our ref PS5CGK
Your ref
Date 20 April 1989

COPIES TO
PS/Sir Brian Hayes
Mr Stephens
Mr Dell
Mr Foxall ECGD
Mr Breach
Mr Muir DTI
Mr Bowder "
Mr Causer "
Mr Bossom ECGD
Mrs Williams Air 1. DTI
Mr Coombe ECGD

Dear Charles,

ECGD COVER FOR BRAZIL : MEL/PHILIPS AVIONICS SALE TO AIR FORCE

Your letter of 3 April enclosed a copy of a further letter of the same date from Mr R J Scott of MEL pointing out the extent of French official support for a competitive bid on the avionics sale to the Brazilian Air Force worth around £40m. You will recall that the Foreign Secretary's minute of 10 March to the Prime Minister and Treasury's letter of 10 March to you reported the disagreement between Departments on whether ECGD support should be provided for MEL. The Prime Minister indicated that she shared the Chief Secretary's concerns on the case, particularly since it seemed that the French were not providing full cover. Subsequently I provided a draft reply for you to send to Mr Scott regretting that in present circumstances it was felt that ECGD's accounts should not be exposed to the payment risk in this case.

It has now become clear, as Mr Scott's letter says, that the French official support for their exporter, Thomson, is significantly greater than they had indicated earlier. DREE (the responsible French Government department) now say that they could decide to support French equipment for up to six aircraft on a risk sharing basis, ie on 64% of the French content. In addition, it is now emerging that, for the present, the Brazilians are likely to place orders for six aircraft avionics packages only.

the Enterprise

dti

the department for Enterprise

The FCO, MoD and Treasury have agreed the terms of this further submission in case the Prime Minister considers that the evidence of greater French Government involvement justifies another look at the question of ECGD support. Depending on the decision, I shall of course provide a suitable reply to Mr Scott's letter.

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dti
the department for Enterprise

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I am copying this letter to Stephen Wall (FCO), Brian Hawtin (MoD), Peter Wanless (Treasury), and Trevor Woolley (Cabinet Office).

Yours ever

Ben Slocock.

BEN SLOCOCK
Private Secretary

the enterprise initiative

Brazil – Related Sept 52



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 April 1989

I attach a copy of a letter which the Prime Minister has received from Mr. R. J. Scott.

I should be grateful if you could provide advice on this letter and a draft reply, to reach me by 17 April.

I am copying this letter to Brian Hawtin (Ministry of Defence), Carys Evans (Chief Secretary) and Bob Pierce (Foreign and Commonwealth Office).

C D POWELL

Ben Slocock, Esq.,
Department of Trade and Industry

NT AR CF?

RB 14

Our Ref: D125/9073/RIH/lk

MEL, Manor Royal, Crawley,
West Sussex, RH10 2PZ England.
Telephone: Crawley (0293) 28787
Telex: 87267. Facsimile (0293) 542818

3 April 1989

The Rt. Hon. Margaret Thatcher PC MP
10 Downing Street
LONDON
SW1

Dear Prime Minister

Thank you for your letter of 20 March 1989.

Since that date, documentary evidence has come into our hands which shows conclusively that the French Government, through COFACE, is supporting 64% of the value of French exports for the sale of Avionics to the Brazilian Air Force for their Grumman Tracker Aircraft. This is in spite of the fact that France, unlike the United Kingdom, is not officially on cover for Brazil.

In the light of this new development, I would ask that you review the position set out in your letter of 20 March and authorise ECGD to seek with MEL and its bankers a mutually acceptable support proposal. I would reiterate our willingness, and that of our bankers, to accept a significant proportion of the overall risk that such a proposal would entail.

Yours sincerely
MEL

Robert J. Scott

R J Scott
Group Managing Director

A Division of Philips Electronic and Associated Industries Limited. A member of the Philips Defence and Control Systems (DCS) Group of Companies.
Registered in England No. 446897. Registered Office: Philips House, 188 Tottenham Court Road, London W1P 9LE.

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PHILIPS

Brazil UK/Braz relations Sept 82

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→ CDP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 March 1989

Bob Pierce Esq
PS/Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

CDP
2/4

Dear Bob

CALL BY BRAZILIAN FINANCE MINISTER

Mailson da Nobrega, the Brazilian Finance Minister, paid a call on the Chancellor this morning. He was accompanied by Brazilian Officials. Mr Lankester and Mr Mountfield (both Treasury) were also present.

Mailson da Nobrega said that Brazil had taken a number of steps to put its own house in order. Relations with the IFIs were back on a normal footing. But there were still problems. Brazil still faced an annual debt repayment equivalent to 5 per cent of its GDP. This was unsustainable. But the creditors were not showing any signs of movement. Something was needed as a demonstration that co-operation worked.

Continuing, Mailson da Nobrega said there were some helpful developments. The Japanese EximBank was about to announce a substantial loan to Brazil. This was, so far, the "most positive response from the industralised countries". The Brady Plan was also a positive step in the right direction, though its details remained to be resolved. Brazil was itself taking steps to reduce debt through debt/equity swaps. But more was necessary. What was the UK's view of the Brady Plan? Was it correct - as was generally understood amongst the middle income debtors - that it was the aim to announce a debt reduction plan at the July Summit in Paris?

The Chancellor said that we recognised the firm measures taken by Brazil. It was, however, unfair to suggest that the creditors had not responded - the IFIs, and the Paris Club in particular, had bent over backwards to be as helpful as possible, within the scope of the rules. The UK had played a leading role here, reopening export credit immediately after rescheduling. The Brady Plan was vague in many respects. It would be discussed further in Washington. But it would be very dangerous if the debtor countries built up an expectation that a new solution would be found. Anything which might emerge would build on existing measures. The Chancellor noted that the principal creditors were the commercial banks. They had, so far, done very little to resolve the situation. He welcomed Brazil's use of debt/equity swaps. But Brazil could do much more, here.

Mailson da Nobrega agreed that debt/equity swaps were valuable. But account needed to be taken of the effect which they might have on monetary expansion. Other measures were required. Creditor Governments could speed up the process of debt reduction through market mechanisms by fiscal measures. The Chancellor noted that we had already done a lot through fiscal measures: UK tax relief for banks' sovereign debt provisioning amounted to over $1 billion. As far as debt/equity swaps were concerned, the risks of consequential monetary expansion were much exaggerated: monetary growth could be sterilised through gilts issues. This would have only a marginal effect on interest rates. More particularly, if debt/equity swaps were linked with privatisations this would have no effect on monetary expansion, would be attractive in itself, and would help to repatriate flight capital.

Mailson da Nobrega said that he agreed that debt/equity swaps should be linked with privatisations. But the Brazilian Congress were opposed to this approach. They had recently blocked a proposal to sell off parts of Brazilian nationalised industries to foreign companies. He asked what the Chancellor thought about IMF/IBRD guarantees for debt, and about the suggestion that the IFIs might put aside funds for cash buy-back transactions.

The Chancellor said he would take a lot of persuading that there should be IMF/IBRD guarantees. He was more open minded about the suggestion that resources might be put aside for debt buy-back, but he would need to see the details of any particular suggestions. Mailson da Nobrega said that buy-backs would be very attractive to the Brazilians at present. They were considering a modest amount of these. But the solution to their debt problem lay in a combination of buy-backs, debt/equity swaps, and a write-down of interest rates. Brazil had recently been approached by some large US banks with a proposal to exchange existing debt for new debt at a fixed rate of 4 per cent - but with a rolling public sector guarantee. The Chancellor took note.

I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

Yours ever

J M G TAYLOR
Private Secretary



FILE KK 06

cc DTI

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 March 1989

The Prime Minister has asked me to thank you for your letter of 17 February about your efforts to secure a £55 million contract for the sale of avionics to the Brazilian Air Force. She commends the initiative of MEL and the other British companies concerned in pursuing export business of this kind but regrets that ECGD support cannot be authorised on this occasion.

ECGD is able to provide some support for medium term credits under its DX facility in countries like Brazil, which, while still rescheduling their debts, are taking steps to make the necessary economic adjustment under IMF guidance. The amount of exposure ECGD can assume in these circumstances is however constrained by the need for financial prudence. In addition, the business supported should normally involve goods or services that provide direct economic benefit to the country concerned and preferably assist that country's efforts to meet its external debt obligations.

Although all the factors in the case of your potential sale to Brazil have been considered and full account has been taken of your offer to accept a higher proportion than usual of the risk, it is felt that ECGD's accounts should not be exposed to the remaining payment risk in present circumstances.

The Prime Minister hopes that you will not let this experience deter you from seeking other difficult export contracts in future, or indeed in Brazil when that country's economic position improves.

(C. D. POWELL)

R. J. Scott, Esq.

dti

the department for Enterprise

cc P.C.

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
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Direct line 215 5622
Our ref PS5CCT
Your ref
Date 17 March 1989

Dear Charles

ECGD COVER FOR BRAZIL : MEL/PHILIPS AVIONICS SALE TO AIR FORCE

Your letter of 12 March to Stephen Wall at the FCO reported the Prime Minister's reaction to the Foreign Secretary's minute of 10 March and Peter Wanless' subsequent letter to you on the same day. The Prime Minister indicated that she shared the Chief Secretary's concerns on the case, particularly since it seems that the French are not providing full cover.

It remains to provide you with a draft reply to MEL confirming the decision against the provision of ECGD cover (your letter to me of 17 February). A draft is attached.

I am copying this letter and enclosure to Stephen Wall (FCO), Brian Hawtin (MoD), Peter Wanless (Treasury) and Trevor Woolley (Cabinet Office).

Yours ever

Ben Slocock.

BEN SLOCOCK
Private Secretary

the enterprise initiative

DRAFT FOR PS/PRIME MINISTER TO:

To sign

R J Scott Esq
Group Managing Director
MEL
Manor Royal
CRAWLEY
West Sussex
RG10 2PZ

KK 6

The Prime Minister has asked me to thank you for your letter of 17 February about your efforts to secure a £55m contract for the sale of avionics to the Brazilian Air Force. She commends the initiative of MEL and the other British companies concerned in pursuing export business of this kind but regrets that ECGD support cannot be authorised on this occasion.

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PS5CDD

your offer to accept a higher proportion than usual of the risk, it is felt that ECGD's accounts should not be exposed to the remaining payment risk in present circumstances.

The Prime Minister hopes that you will not let this experience deter you from seeking other difficult export contracts in future, or indeed in Brazil when that country's economic position improves.

PS5CDD

BRAZIL - Relations Sept 82

20. III. PM n° 9

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 March 1989

ECGD COVER FOR A MEL/PHILIPS CONTRACT IN BRAZIL

The Prime Minister has considered the Foreign Secretary's minute of 10 March about the question of ECGD support for MEL's bid to supply avionics equipment to the Brazilian airforce. She has commented that she shares the Chief Secretary's concerns particularly since it seems that the French are not providing full cover.

I am copying this letter to Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Carys Evans (Chief Secretary's Office).

(CHARLES POWELL)

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

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CC/PC

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary
10 Downing Street
London
SW1

10 March 1989

Dear Charles,

ECGD COVER FOR BRAZIL: MEL/PHILLIPS AVIONICS CONTRACT

The draft letter attached to the Foreign Secretary's minute of 10 March was agreed with the Treasury (and other departments) in advance. However, new evidence suggests that it is wrong on a point of fact, and since this is important to the Chief Secretary's argument, I should be grateful if you would correct it before it reaches the Prime Minister.

Paragraph 2 of the minute says that the French competitor's financing package includes "supplier credit from the French Export Credit Agency COFACE'.

We have now seen a telex from the French Finance Ministry to ECGD, which says: "We will probably consider a five year credit, but only for the prototype phase of the project, that is first part of it." We understand that this refers to equipment for only one aircraft. Our officials believe, from their own bilateral contacts with the French Ministry of Finance, that the French Government is having difficulty in making up its mind about this case. They consider that the Prime Minister should be aware of the limited nature of the French offer before deciding what to do about British support.

I am copying this letter to Neil Thornton (DTI), Brian Hawtin (MOD), Stephen Wall (FCO) and Trevor Woolley (Cabinet Office).

Yours sincerely,

Peter Wanless.

PETER WANLESS
Assistant Private Secretary

10. III.

cc PK (1)

I understand that this minute is written on a false premise - namely that the Foreign Secretary has the freedom to provide full cover. It seems they are not. I.J. that is possible. The Co. does not need cover.

I share the Chief Sec's concerns.

N.S.

Prime Minister

The Foreign Secretary, Defence Secretary & Trade & Industry Secretary recommend that we should exceptionally provide cover for this defence contract for Brazil, provided the company retain a healthy share of the risk. The Chief Secretary is opposed. The amount is relatively small (£55 million). Agree the majority view?

CDP 10/3

PM/89/013

PRIME MINISTER

ECGD Cover for a MEL/Philips Contract in Brazil

1. The Managing Director of MEL wrote to you on 17 February seeking your help in resolving differences between Departments about whether ECGD support should be given for a contract involving a £55 million sale of avionics equipment to the Brazilian airforce. In Ministerial correspondence George Younger has proposed that for strong industrial, commercial and political reasons cover be made available under the Special Arms Account. He is supported by David Young. John Major believes that to back the deal will add to ECGD's financial problems, and has described the proposal as economic nonsense which we should not condone as it will do nothing to help Brazil's economic prospects. My own view is that it would be wrong to refuse cover but that the risks should be shared between the company and ECGD.

2. Philips/MEL are trying to win the contract against French competition. MEL have agreed in principle to bear 32% of the risk (the 15% downpayment and 20% of the

/balance

balance for which they initially sought ECGD cover). MEL and their French competitors, Thomson CSF, presented qualifying documents on 2 February. Thomson revealed their financing package, which we understand included supplier credit from the French export credit agency COFACE. (The Treasury tell me, however, that the French Ministry of Finance remains opposed to further cover for arms sales to Brazil, and, ironically, blames us for stoking up the credit war.) MEL, whose bid is believed to be at least 10-15% cheaper than Thomson's, did not disclose financing details. The financing offer will be opened on 16 March, so we have only a few days in which to reach a final decision.

Departmental views

3. The Chief Secretary is unwilling to agree cover for non-productive defence contracts in Brazil at present. Brazil is eligible for restricted cover under the arrangements (DX) introduced for countries who have rescheduled their debts in the Paris Club. The arrangements were first proposed by the Chancellor in his speech at the IMF in September 1984 to allow countries with a debt problem to go on borrowing for purposes which help their economic recovery - eg for import-saving investments, or to build up new export capacity. Since credits for defence equipment do not generally help in this way, but do add further to the country's debt service problems, they are not normally eligible for DX cover.

/4.

4. Brazil remains heavily indebted, and has a patchy record in implementing adjustment measures. Its current adjustment programme is teetering; inflation had reached 900% by the end of last year. The Government's grip on economic policy is unsure, and there is a strong chance that a populist government may be returned after the November elections. Brazil declared a moratorium on debt service payments (including defence debts) for much of 1987, and only regularised its position (through a formal rescheduling) at the end of 1988. Brazil is likely to need a further debt rescheduling later this year if it can reach agreement with the IMF on a new adjustment programme (although on present Paris Club rules new debt will escape any future rescheduling). In these circumstances, the Chief Secretary views the issue as one of principle - the maintenance of the criteria governing the provision of DX cover for countries undertaking economic adjustment programmes but which are rescheduling their old debts.

5. David Young, George Younger and I accept the need for ECGD to be cautious in increasing its exposure to heavily indebted countries and also the need to concentrate DX cover on economically useful purchases. But the fundamental differences between countries eligible for DX cover should be taken into account, and in our view Brazil's long term potential as an export market justifies the risks involved in lending for this contract. Unlike most other problem debtors, Brazil has a large and broadly based economy, which is not dependent on oil. It has for several years run a substantial trade surplus (estimated at $19 billion in 1988). Since the

contract has been fully budgeted for by the Brazilian air force and should not be caught up in any future rescheduling ECGD is prepared to accept the contract as a viable insurance risk for the Special Arms Account (although they are already required to make a substantial provision against existing risks in Brazil following last year's moratorium).

6. Unlike many DX countries, Brazil will offer major opportunities for both defence and civil business into the next century. Suppliers may doubt our commitment if we refuse to support a British firm, when France is understood to be providing cover for a less competitive rival. DTI and MoD also argue that if the deal is lost through inadequate government support, some 340 jobs are likely to be lost and there is a risk that Philips may move their avionics business to France. The Brazilian order could put the company in a good position to achieve orders for the avionics fit of maritime patrol aircraft of other countries.

7. Refusal of cover for reasons of principle is unlikely to be understood by the Brazilians. This deal, for a government purchaser, will be the first major contract signed since we resumed cover for Brazil. To refuse cover for MEL could prejudice future defence sales including Westland's bid to provide Lynx helicopters for the Brazilian navy. (Departments have agreed, on the basis that it will not set a precedent, that cover under the DX facility will be available to honour a written offer made by the Secretary of State for Defence for these helicopters in 1987.) Brazilian goodwill is also useful over the Falklands.

8. David Young, George Younger and I therefore disagree with the Chief Secretary's view that no cover should be provided. We believe that cover should be made available from the Special Arms Account. This would reflect the special factors involved in this case, and avoid creating a precedent for breaching the DX guidelines. There is sufficient headroom within the Ministerially approved allocation of £1 billion to accommodate this risk. John Major remains of the view that to by-pass the DX criteria in this way would undermine the basic rationale for creating the facility and so undercut the current strategy for helping debtor countries.

9. I conclude that it is in our interest to offer cover on a risk-sharing basis under the Special Arms Account. ECGD's potential liability should be limited by asking the company to bear some share of the risk. To switch to a risk-sharing basis will cause technical problems for ECGD if the deal has to be signed up quickly, but George Younger believes MEL is willing to cover 32% of the contract value. I therefore recommend that if MEL cover an acceptable share of the burden, which I think should be at least 32% of the contract value ECGD should be authorised to provide cover for the balance.

10. I am copying this minute to John Major, George Younger, David Young and Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 March 1989



COMMERCIAL IN CONFIDENCE

SECRETARY OF STATE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 6/20L

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

6th March 1989

Dear John,

ECGD COVER FOR MEL

Since you wrote to me on 16th February re-stating your objection to extending ECGD cover for the MEL bid for the Brazilian Air Force avionics contract you will have seen the two further signals from our Embassy staff and the MEL's letter of 17th February to the Prime Minister.

I understand your concern about the Brazilian debt position and I would not normally press you further. But the French are clearly taking a different view and, as the Embassy points out, the Brazilian Central Government and the military in particular have a good record in terms of meeting government to government debt repayment commitments. Ironically MEL regard the Brazilian military as one of their best payers and this has influenced them in already agreeing, with their bankers, to take up some 32% of the total risk (the down payment plus 20% of the residual credit risk). We are pressing them to do more and may achieve some improvement, but their share is already high for a deal of this sort and it would be wrong of me to anticipate any dramatic improvement in the risk ratio. Certainly we would not achieve anything like the 50/50 arrangement Geoffrey Howe mentioned in January.

The Rt Hon John Major MP

Nevertheless I continue to believe the MEL case is a strong one on industrial grounds and we cannot be seen lightly to turn away from a substantial export order given the present balance of payments position. This is particularly so where it is anticipated that the Brazilian order could put the company in a good position to achieve orders for the avionics fit of maritime patrol aircraft of other countries.

I think, therefore, that Ministers should at least talk the position over before any advice is given to the Prime Minister to reject the MEL appeal. This will need to take place before the end of this week if we are not to risk the MEL case going by default. Although I may be out of the country myself, Tim Sainsbury is available to represent me.

I am copying this letter to Geoffrey Howe and David Young, as well as to Charles Powell in No 10 and Sir Robin Butler.

Yours ever,

George

George Younger

BRAZIL: Relations
Sept 82



R. J. SCOTT
3/3

1) 7/3

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Ack 17 February 1989

I attach a copy of a letter the Prime Minister has received from Mr. R.J. Scott, Group Managing Director of MEL.

I should be grateful if you could provide a draft reply to this letter for my signature, to reach me by Friday 3 March please.

I am copying this letter and enclosure to Steve McCarthy (Ministry of Defence), Bob Peirce (Foreign and Commonwealth Office) and Carys Evans (Chief Secretary's Office).

(CHARLES POWELL)

Ben Slocock, Esq.,
Department of Trade and Industry.

12712

Our ref D125/9093/RJS/ec

17 February 1989

MEL, Manor Royal, Crawley,
West Sussex, RH10 2PZ England.
Telephone: Crawley (0293) 28787
Telex: 87267. Facsimile (0293) 542818

The Rt. Hon. Margaret Thatcher PC MP
10, Downing Street
London
SW1

Dear Prime Minister

My Company is currently engaged in an attempt to win a major avionics contract from the Brazilian Air Force to provide equipment for their Grumman Tracker aircraft based on the aircraft carrier Minas Gerais. Our contract proposal was submitted to the Brazilians on Thursday 2nd February 1989, at the Public Bidding Meeting that took place in Rio de Janerio. At that meeting two tenderers submitted proposals, namely ourselves and a consortium consisting of Embraer (a Brazilian company) and Thomson CSF of France. Whilst the consortium is nominally led by Embraer, Thomson CSF would be the principal supplier of avionics equipment.

The Contract is expected to be worth in the region of £55 million of which approximately 90% would be for British Industry. This British content consists primarily of ourselves, GEC-Marconi, Plessey, Racal and Normalair-Garrett. The Brazilian Air Force have publicly announced that they will select a contractor by 31st March 1989, and initiated that selection process on 16th February 1989. Whoever wins this Brazilian contract will gain an enormous advantage in the increasingly important military and paramilitary maritime patrol market world wide because this is the first of a number of similar procurements around the world. Based on previous successful military sales into Brazil and on our excellent contacts and reputation in country, we understand that the Brazilian Air Force has a clear preference for our technical and system solutions.

Our main obstacle to winning this contract is, we believe, the differing situation with regard to credit availability between ourselves and the French. Our French competitors submitted a financial proposal at the Public Bidding Meeting which appears to have the support of the French Government, whereas our proposal has had to be very vague on this subject as there has been no clear conclusion to our application for ECGD support for the appropriate credit required for this project. We will be forced to withdraw from the bidding process without the availability of a suitable and competitive credit package; withdrawal at this late stage would significantly damage my Company and would leave the way clear for our French competitors.

contd/

A Division of Philips Electronic and Associated Industries Limited. A member of the Philips Defence and Control Systems (DCS) Group of Companies.
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PHILIPS

PHILIPS

We have been working through the normal official channels for some months, but regrettably time is now running out for us. We have received excellent support from DTI, FCO, ECGD and our sponsoring department MOD (DESO), but the problem appears to be that the Treasury has uncertainties as to whether ECGD support should be given, and therefore no conclusion has been reached on our application. Could I ask that you intervene in what appears from the outside to be a stalemate, so that we can be given a clear decision, preferably of course approving our application.

Your assistance in bringing this issue to a satisfactory conclusion would be of immense help not only to my Company but also to the British avionics industry in the wider sense. It would undoubtedly be the clinching factor in our attempt to win this contract, and would pave the way for further potential British export business for this type of avionics package by providing the competitive edge that British success in this contract would give over foreign competitors.

Yours sincerely
MEL

Robert Scott

R.J. Scott
Group Managing Director

cst.ps/2jm16.2/lets

COMMECIAL IN CONFIDENCE

CC/PC

C.D. 17/2.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

16th February 1989

Dear George,

ECGD COVER FOR BRAZIL

WH REQUEST AGAIN

Thank you for your letter of 9 February. I have reconsidered this case very carefully in the light of what you say, and of the suggested compromise put forward in Geoffrey Howe's letter of 4 January. I am sorry that we are not at one on this issue.

This correspondence really raises two main issues:

(i) is it sensible to lend money to Brazil at all, in present circumstances?

(ii) if so, should we be prepared to do so for non-productive arms expenditure?

It is worth just rehearsing the history. Brazil is one of the major debtor countries. It suspended payments to banks from February 1987, but resumed talks with the IMF about a year later. Following belated agreement on an IMF stand-by agreement (SBA) and a Paris Club rescheduling of Brazilian debt, ministers agreed last summer that ECGD should be the first export credit agency to resume cover again, for £250 million under the DX facility, as soon as the bilateral debt negotiations were concluded. However, a bilateral debt agreement has still not been signed; the delays were all on the Brazilian side. Meanwhile, the IMF programme has gone badly off-track again; inflation is accelerating; a further emergency economic package has been put in place in Brazil; and we await the reactions of the IMF. Clearly there are limits to the amount of adjustment the Brazilian Government can afford to introduce: there are presidential elections in November. But the present administration seems determined to carry through the reforms of the "Summer Plan".

It therefore seems sensible to maintain our policy of providing a limited amount of "DX" cover for Brazil. As you know the DX scheme was introduced at Nigel Lawson's suggestion following his speech at the IMF in September 1984. The idea is that creditor countries should be prepared to maintain export credit cover for countries which are engaged in an economic adjustment programme, and which have been forced to reschedule their debts. But the whole purpose of the scheme is to provide finance for imports of capital goods and other items which will hasten the process of economic recovery. Arms sales were deliberately excluded for that reason. We have recently made two limited exceptions to this policy, both in Brazil, and I am anxious not to stretch the rules any further.

You point out, rightly, that there is always the "special arms facility". But that was introduced to allow ECGD to cover essentially profitable business which was just too big to be accommodated within market limits. It was not intended for especially risky markets. We should look behind the small print of the rules applying to these two facilities, and ask ourselves whether it really makes sense to lend money to Brazil, a country which is already finding difficulty in servicing its debts, for essentially non-productive purposes, which will not generate additional foreign currency earnings with which to service their debt. In my view this is economic nonsense, and we should not condone it. Quite simply, it is an unacceptable financial risk.

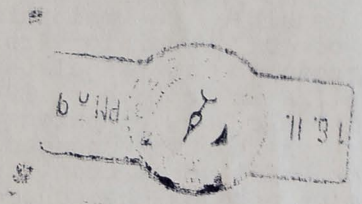
It may be that other countries are prepared to risk their money in this way (though I am sceptical about reports that the French are about to do so: they were very cross when we publicly announced that we were ready to resume cover). But we need not follow their bad example.

For these reasons, although I am extremely grateful to Geoffrey Howe for trying to propose a compromise, I do not think that would be appropriate. The question is one of principle: are we prepared to lend money to a bankrupt country for an investment which will not help that country to pay its debts? If we do, we are simply adding to the financial problems of ECGD, about which I wrote to the Prime Minister on 9 February.

I am sending copies of this letter to the Prime Minister, to Geoffrey Howe, David Young and to Sir Robin Butler.

Yours Ever, John

JOHN MAJOR



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 191/88

File
EAMAJG
cc FCO
HMT
PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

SUBJECT: CC Matter
OPS

13 December 1988

Dear Mr. President,

Thank you for sending me through your Embassy in London a copy of your speech to the National Security Council about Brazil's foreign debt.

I acknowledge the very difficult problems you face in tackling Brazil's current economic and external debt situation, about which you spoke to Mr Eggar during his recent visit. Your success in agreeing a standby arrangement with the IMF in July was an important step. The sound economic policies which you and your Minister of Finance are pursuing command wide respect among the international financial community. Our own experience in the United Kingdom shows that persisting with firm policies is the way to secure lasting recovery.

If the constitutional difficulties over negotiating bilateral rescheduling agreements can be resolved swiftly, that will further improve Brazil's relations with her creditors.

Since most of Brazil's debt is to the commercial banks, market-based arrangements must hold the key to the resolution of Brazil's debt problems. I congratulate you on the imaginative use of the various instruments which reduce the burden of debt, as well as provision of new money, in the rescheduling agreement you have just concluded with the banks. I accept that there is a role for creditor

Eds

governments in creating a favourable external economic environment and ensuring an open trading system. The United Kingdom is firmly committed to this. Creditor governments also, of course, make a major contribution through both the Bretton Woods institutions and the Paris Club, where Brazil's official debt was rescheduled on generous terms in July. But private capital flows can be just as important in accelerating the pace of development. I would hope that you will feel able, therefore, to remove artificial barriers to foreign investment and to increase Brazil's attractiveness to foreign investors.

Thank you again for sending me your speech.

With best wishes.

Yours sincerely

Margaret Thatcher

His Excellency Senhor José Sarney

Foreign and Commonwealth Office

London SW1A 2AH

12 December 1988

Dear Charles

Brazil: Letter from President Sarney

On 14 November the Brazilian Embassy passed to the FCO the attached letter of 28 October from President Sarney enclosing a copy of a speech he made on 21 September to the National Security Council. Since the President's letter was signed personally, we believe that a signed reply from the Prime Minister would be appropriate. I enclose a draft together with a draft covering letter for you to send to the Brazilian Ambassador. The Treasury concur.

A major theme of the speech is to welcome the recent ending of Brazil's moratorium, and to stress Brazil's determination to abide by its obligations under the new agreements. But it also calls for greater action from creditor governments in alleviating the debt burden, and in re-establishing positive net financial flows to debtor countries.

The Prime Minister may like to take this opportunity to comment on Brazil's debt difficulties. She will wish to stress the importance of adjustment measures and of Brazil continuing to adhere to an IMF programme. Its current programme is at risk because of high inflation: the Prime Minister could therefore emphasise the importance of prudent fiscal and economic policies. She will also wish to reiterate our opposition to any transfer of risk from commercial banks to government creditors, while stressing the important role that the UK and other industrialised countries play in the IMF and the Paris Club. She could urge Brazil to do more to open its economy to foreign direct investment.

We have also inserted a specific reference to Mailson de Nobrega, the Finance Minister, who is earnestly trying to pursue prudent policies with inadequate support from the President. Nobrega's position is reported to be precarious, and his departure from the government would cause a severe blow to creditor confidence.

Brazil's new constitution requires the government to seek the approval of Congress for all financial agreements. This provision has so far prevented Brazil from opening negotiations with any of its creditors on bilateral

/agreements

agreements following the recent Paris Club settlement. This could potentially have serious consequences, not least for Brazil's access to further credit from export credit agencies. It would be useful for the Prime Minister to draw President Sarney's attention to this problem.

I am copying this letter to Jonathan Taylor in the Treasury.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

DEPARTMENT: C Powell Esq TEL. NO:

BUILDING: ROOM NO:

Reference NB3AAI

Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO: Copies to:

His Excellency Senhor Celso de Souza e Silva

The Brazilian Embassy

32 Green Street, Mayfair, W1Y 4AT

SUBJECT:

Thank you for your note of 14 November forwarding to the Foreign and Commonwealth Office President Sarney's letter of 28 October to the Prime Minister which enclosed a copy of his speech to the National Security Council.

The Prime Minister read the President's letter with great interest and is most grateful to him for sending her a copy of his speech. I should be / grateful if you would forward her attached reply.

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

.....

In Confidence

to the economy. It will be a further step in the improvement of Brazil's relations with her creditors if the constitutional difficulties over negotiating bilateral rescheduling agreements can be swiftly resolved.

Since most of Brazil's debt is to the commercial banks, market-based arrangements must hold the key to the resolution of Brazil's debt problems. I was glad to see the imaginative use of the various instruments which reduce the burden of debt, as well as provision of new money, in the rescheduling agreement you have just concluded with the banks. There is also, as you say, a role for creditor governments, above all in creating a favourable external economic environment and ensuring an open trading system. My government is firmly committed to the liberalisation of trade and reform of world agriculture.

Creditor governments also make a major contribution through both the Bretton Woods institutions and the Paris Club, where Brazil's official debt was rescheduled on generous terms in July. But private capital flows can be equally important in accelerating the pace of development. I would urge your government to remove artificial barriers to foreign investment and to increase Brazil's attractiveness to foreign investors.

DSR 11 (Revised Sept 85)

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DSR 1 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT: Prime Minister TEL. NO:

~~NB3AAG~~

Your Reference

BUILDING: ROOM NO:

EAMAJG

SECURITY CLASSIFICATION

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Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO:

Copies to:

President Sarney

SUBJECT:

Thank you for sending me through your Embassy in London a copy of your speech to the National Security Council about Brazil's foreign debt.

I ~~am aware of~~ acknowledge the very difficult problems you face in tackling Brazil's current economic and external debt situation, ~~and I know that~~ about which you spoke ~~about this with~~ to Mr. Tim Eggar during his recent visit. ~~I was therefore very pleased when Brazil reached agreement~~ Your success in agreeing on a standby arrangement with the IMF in July (was key) an important step. ~~I am sure sound economic policies, and in particular firm fiscal and monetary policies, are the way to restore creditors' confidence. I am glad that Tim Eggar was able to discuss these issues fully with Mailson da Nobrega. The economic~~ We look forward to seeing what you and your Finance Minister policies ~~he is~~ pursuing command wide respect among the international financial community, and ~~I hope they can be carried through to a successful conclusion~~. Our own experience in the UK shows that persisting with firm ~~economic~~ policies is the ~~only~~ way to ~~bring~~ secure lasting recovery.

SECURITY CLASSIFICATION

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Unclassified

PRIVACY MARKING

.....
In Confidence

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Creditor governments also of course, make a major contribution through both the Bretton Woods institutions and the Paris Club, where Brazil's official debt was rescheduled on generous terms in July. But private capital flows can be just as equally important in accelerating the pace of development. I would urge your government to hope that you will feel able, as before, to remove artificial barriers to foreign investment and to increase Brazil's attractiveness to foreign investors.

Thank you again for sending me your speech with best wishes.

12. XII 19 88

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.191A/88

SUBJECT cc Market Ops.

UNOFFICIAL TRANSLATION

The Rt Hon. Margaret Thatcher, MP
Prime Minister of the United Kingdom

Prime Minister,

I have the honour of writing to you to enclose the text of the speech I delivered, on 21st September, on the question of Brazil's foreign debt, to the National Security Council, the highest advisory body of the Brazilian Government.

The agreements which were signed between Brazil and the creditor banks, following complex and lengthy negotiations, demonstrate my country's intention to strengthen its links with the international financial community. As you will recall, in the early part of 1987, Brazil was temporarily forced to withdraw payments on interest owed to private creditors due to grave pressures on the country's reserves.

The purpose of my speech to the National Security Council was to place the agreement arrived at with the creditors within the perspective of those principles my Government has upheld regarding the issue of the foreign debt. More specifically, it may be worth remembering that of the mutual responsibility of creditors and debtors alike in seeking long-term solutions to the debt problem, as well as to the need to secure the continued growth of the economies of debtor countries.

Prime Minister, Brazil is prepared to fulfil faithfully its obligations in the negotiations of its foreign debt. We have made firm commitments. We have undertaken serious adjustment measures. We expect, therefore, from our partners, equally effective and positive steps.

I believe that the re-establishment of financial flows to debtor countries and the improved access of their exports to leading world markets are some of the essential ingredients in any attempt to normalize the ties with the international financial community.

In conveying this message to you, it is my hope that we may continue to work together with a view to find just and long-lasting solutions, in the political level, to the question of the foreign debt.

Please accept the assurance of my highest consideration,

Signed: José Sarney

BRAZILIAN EMBASSY

Nº 088 /EFIN-LOO

The Brazilian Embassy present their compliments to the Foreign and Commonwealth Office and have the honour to enclose a letter from His Excellency, Mr. José Sarney, The President of the Federative Republic of Brazil, addressed to the Right Honourable Margaret Thatcher, M.P., Prime Minister of the United Kingdom.

The Embassy would be grateful if this letter and attachments were to be forwarded to the Prime Minister.

The Brazilian Embassy avail themselves of the opportunity to renew to the Foreign and Commonwealth Office the assurances of their highest consideration.

London, November 14th, 1988

file Kho
cc Sir PC
B. I.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July 1988

BRAZIL: BRIDGING LOAN

Thank you for your letter of 19 July about the proposed bridging loan to Brazil and the indemnity to be provided by the Treasury to the Bank of England for their participation in it. The Prime Minister is content with this.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Leader of the House of Commons, the Leader of the House of Lords, the Chief Whip, the Chief Whip (Lords), and to the Governor of the Bank of England.

CHARLES POWELL

Jonathan Taylor, Esq.,
H.M. Treasury.

mjd 2/189Jn

No.10.

cc PC (2)

Prime Minister
CDP
19/7.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 July 1988

Charles Powell, Esq
PS/Prime Minister
No.10 Downing Street
London SW1

Dear Charles

BRAZIL: BRIDGING LOAN

The Prime Minister will wish to be aware that the Brazilian Government has requested the Bank for International Settlements to arrange a $250 million bridging loan. This will be alongside a parallel loan of $250 million from the United States - making a total of $500 million.

The Bank of England has been asked to guarantee $40 million of the BIS facility, and the Chancellor has agreed that the Bank may take part as long as other central banks also participate fully. The Treasury will give the Bank of England an indemnity on lines similar to that given recently for Yugoslavia.

The bridging loan is to help Brazil's cash flow as interest payments are made to commercial banks in the interval before Brazil receives disbursments from the International Monetary Fund. The IMF Board is expected to approve a new Standby Arrangement with Brazil on 26 July, and this will enable drawings on the bridging facility. The BIS will be repaid once IMF disbursements begin - probably in mid-September. The bridging facility is to be repaid in full by the end of December.

Under the terms of the International Monetary Arrangements Act, 1983 we are required to inform both Houses of Parliament. The BIS loan is expected to be finalised tomorrow, and the Chancellor proposes to lay a Paper under Act on Wednesday or as soon after that as the BIS loan is announced. I should be glad to hear that the Prime Minister sees no objection. Our view is that the operation will be uncontroversial and is unlikely to provoke much comment in Parliament.

The FCO will send briefing to Brasilia and other posts. Press officers at the Treasury, FCO and Bank will have question and answer briefing. As a matter of courtesy we shall notify the Public Accounts Committee and the Treasury and Civil Service Select Committee.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Leader of the House of Commons, the Leader of the House of Lords, the Chief Whip, the Chief Whip (Lords), the Governor of the Bank of England, and to the Press Secretary at No.10.

Yours sincerely

J M G TAYLOR
Private Secretary



ps3/3T

CC PC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

18 July 1988

CDP
1917.

R Peirce Esq
PS/Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Bob

COURTESY CALL BY BRAZILIAN FINANCE MINISTER

The Brazilian Finance Minister, Mr Mailson da Nobrega, paid a courtesy call on the Chancellor this morning. He was accompanied by Mr Sergio Amaral; HE the Brazilian Ambassador; and a Press Secretary. Sir Geoffrey Littler and Mr Mountfield were also present.

The Chancellor said he was glad of this opportunity to talk with Mailson. It was good to see that the Brazilian economy was now moving in the right direction.

Mailson said that co-operation, not confrontation, was the way out of Brazil's economic difficulties. He was determined to "normalise" Brazil's relations with the international economic community and to bring the internal economy under control. His target this year was to reduce the PSBR from 8 per cent to 4 per cent of GDP; and his aim was to reduce it further, to 2 per cent of GDP, next year. Mailson was convinced that the best way to tackle Brazil's inflation was to reduce the size of the public sector deficit. He needed also to reduce the role of the state in the economy, to free up the supply side, and to liberalise trade. Progress was being made in all these areas.

Mailson said that "normalisation" required agreement with the banks; agreement with the IMF; and rescheduling at the Paris Club. Normalising relations with the international financial community, and positive domestic adjustment, were mutually supporting programmes. Mailson said a good rescheduling programme was particularly necessary. He commented that imports of investment

goods into Brazil were required, and that expanded export credit cover was therefore needed. Mailson concluded by saying that he would be seeing the UK commercial banks later today.

The Chancellor said that the UK commercial banks would take their own decisions. As far as Paris Club rescheduling was concerned, it made all the difference that Brazil was on the brink of an agreement with the IMF. The UK shared in the goodwill towards Brazil at the Club, but the precise proposal would need to be discussed further. Brazil's internal adjustment programme, as described by Mailson, must be the right approach. The problem would be implementing it. The Chancellor said that we had found that positive real interest rates were essential to keeping inflation under control. Mailson agreed. Although there were some protected sectors of the Brazilian economy which enjoyed negative real interest rates (notably farming), most of the economy was exposed to positive real rates. Recent reforms to the financial system had ensured that the Government could use the tool of interest rates much more effectively.

I am copying this letter to Charles Powell (No.10), and John Footman (Bank).

J M G TAYLOR
Private Secretary

ps3/3T

CC PC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

18 July 1988

CDP
1917.

R Peirce Esq
PS/Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

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I am copying this letter to Charles Powell (No.10), and John Footman (Bank).

Yours ever

J M G TAYLOR
Private Secretary



Derek



With the compliments of

THE PRIVATE SECRETARY

As requested.

Sue

29/1

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

DUTY CLERK -3
FILE -1
Top copy with PAB

27582 CABOFF G
27582 CABOFF G
11330090ABR BR

TELEX NR. 1661/86

PRIME MINISTER
MRS. MARGARETH TATCHER
ATT: MR. NIGIL WICKS

IN QUALITY OF FEDERAL COUNSELOR OF THE BRAZILIAN BAR ASSOCIATION AND NATIONAL COORDINATOR OF THE SEMINARS OF JURISTES STUDIES FOR BRAZILIAN LAWYERS IN OTHER COUNTRIES, I HAVE THE PLEASURE TO - INFORM YOU THAT THE NEXT SEMINAR IS ATTENDING AT KING'S COLLEGE- UNIVERSITY OF LONDON, FROM THE 12TH TO THE 16TH OF JANUARY 1987. OUR GROUP IS FORMED BY 210 JURISTES, WHO ARE STAYING AT CLIFTON FORD HOTEL.
AS WE KNOW, IS PROBABLY IN POSSIBLE FOR YOU TO RECEIVE 210 - JURISTES, BUT A COMISSION OF THREE MEMBERS: PROFESSOR DR. JOSE BERNARDO CABRAL, FEDERAL CONSTITUENT DEPUTY AND A NATIVE MEMBER OF THE FEDERAL COUNSEL OF THE BRAZILIAN BAR ASSOCIATION., - PROFESSOR DR. JOSE EUSTAQUIO OSWALDO, FEDERAL COUNSELOR OF THE BRAZILIAN BAR ASSOCIATION AND EFECTIVE MEMBER OF THE BRAZILIAN LAWYERS INSTITUTE AND MAGISTRATE DRA. AMARYLLES DELGADO, WHO - UNDER AN APPOINTMENT DESIGNED BY YOU INTEND TO VISIT YOU IN THE NAME OF THE 210 BRAZILIAN JURISTES IN LONDON TO PAY YOU AND - HOMAGE WITH A SILVER PLATE.
WHEN MY ARRIVE IN LONDON I SHALL CONTACT YOUR PRINCIPAL ASSISTANT TO CONFIRM THE INVITATION AND TO CLARIFY ALL THE DETAILS OF THE OFICIAL VISIT.

YOURS THROUGHLY

DR. JOSE EUSTAQUIO OSWALDO
FEDERAL COUNSELOR OF THE BRAZILIAN BAR ASSOCIATION

MENSAGEM TRANSMITIDA POR RUBIA.

27582 CABOFF G
11330090ABR BRG

G

GG

RESTRICTED

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 74/85

cc MASTER
OPS

DD 221230Z BRASILIA

GRS 250
RESTRICTED
DESKBY 221230Z
FM FCO 221130Z APR 85
TO IMMEDIATE BRASILIA
TELEGRAM NUMBER 115 OF 22 APRIL
INFO IMMEDIATE RIO DE JANEIRO, SAO PAULO

YOUR TELO 150: BRAZIL: MESSAGES OF CONDOLENCE FOR PRESIDENT-ELECT TANCREDO

1 GRATEFUL IF THE FOLLOWING MESSAGE OF CONDOLENCE COULD BE HANDED OVER TO THE RECIPIENTS INDICATED:

(I) FROM THE PRIME MINISTER TO PRESIDENT SARNEY: 'I WAS DEEPLY SADDENED TO LEARN OF THE DEATH OF PRESIDENT-ELECT TANCREDO NEVES SO SOON AFTER HIS ELECTION VICTORY AND BEFORE HE COULD ASSUME HIS HIGH OFFICE. HIS TALENTS AND EXPERIENCE WILL BE GREATLY MISSED, NOT ONLY IN BRAZIL BUT BY BRAZIL'S FRIENDS THROUGHOUT THE WORLD. WE SHARE THE GRIEF OF YOUR PEOPLE AT THIS SAD MOMENT.'

(II) FROM THE SECRETARY OF STATE TO THE FOREIGN MINISTER, OLAVO SETUBAL: 'I WAS SADDENED TO LEARN OF THE DEATH OF PRESIDENT-ELECT TANCREDO NEVES. HIS MANY TALENTS WERE VERY WIDELY ADMIRED. IT IS A TRAGEDY THAT HE WAS NOT ABLE TO USE THEM IN THE SERVICE OF HIS COUNTRY IN THE HIGH OFFICE TO WHICH HE HAD BEEN ELECTED. OUR THOUGHTS ARE WITH PRESIDENT-ELECT TANCREDO NEVES' FAMILY, AND WITH THE GOVERNMENT AND PEOPLE OF BRAZIL AT THIS DIFFICULT TIME.'

(III) FROM LORD WHITELAW TO PRESIDENT SARNEY: 'IT WAS WITH GREAT SADNESS THAT I LEARNT OF THE DEATH OF PRESIDENT-ELECT TANCREDO NEVES FOR WHOSE INAUGURATION I WAS IN BRAZIL LAST MONTH AS THE REPRESENTATIVE OF HM THE QUEEN AND HER MAJESTY'S GOVERNMENT. MAY I EXTEND TO YOU AND TO THE PEOPLE OF BRAZIL MY PERSONAL CONDOLENCES, AND THOSE OF MY WIFE. I AM CONFIDENT THAT BRAZIL

/ will

BRAZIL

WILL CONTINUE TO MEET THE CHALLENGE OF THE FUTURE WITH DETERMINATION AND VIGOUR.'

2 A PERSONAL LETTER FROM LORD WHITELAW TO PRESIDENT SARNEY FOLLOWS BY BAG.

3 PLEASE NOTIFY US OF DELIVERY OF MESSAGES.

HOWE

DISTRIBUTION
LIMITED
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PS/LADY YOUNG
PS/MR RENTON
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SIR W HARDING
MR DAVID THOMAS

COPIES TO
PS/NO 10 D. ST
PS/LORD PRESIDENT OF THE COUNCIL

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

4 April 1985

Dear Peter,

Brazil: Possible Message of Condolence for President-Elect Tancredo

Thank you for your letter of 3 April enclosing a contingency message of condolence in case Tancredo should die over the Easter weekend.

I enclose a slightly revised draft of the message which the Prime Minister has approved.

Yours sincerely,

Charles Powell

Peter Ricketts Esq
Foreign and Commonwealth Office

CONFIDENTIAL

MESSAGE OF CONDOLENCE FROM THE PRIME MINISTER

TO VICE-PRESIDENT JOSE SARNEY OF BRAZIL

I was deeply saddened to learn of the death of President-elect Tancredo Neves so soon after his election victory and before he could assume his high office. His talents and experience will be greatly missed, not only in Brazil but by Brazil's friends throughout the world. We share the grief of your people at this sad moment.

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

3 April, 1985

Prime Minister
Agree contingency message?
CDP 3/4

Dear Charles,

Brazil: Possible Message of Condolence for President-Elect Tancredo

President-elect Tancredo of Brazil remains seriously ill. He is 75 years old. He had an operation for an intestinal complaint on 14 March, the day before his planned inauguration, and as a result the inauguration was postponed. Jose Sarney was installed as Vice-President and is now acting Head of State. Tancredo has subsequently had two operations and although his condition is stable now, he is suffering from a persistent post-operation infection.

In the circumstances, it would seem prudent to have ready messages of condolence in case, as is possible, Tancredo should die over the Easter weekend or while the Prime Minister is in Asia. I enclose a draft message from the Prime Minister to Vice-President Jose Sarney. Since Tancredo never became Head of State we do not consider that a message from HM The Queen would be necessary. The Prime Minister sent Tancredo a message of congratulations on his election on 15 January this year.

We are also suggesting that Lord Whitelaw, who represented HM The Queen and HM Government at the inauguration ceremonies in mid-March, send a message in the event of Tancredo's death; Lord Whitelaw did not hand over the prepared message of congratulations from HM The Queen to Tancredo when he was in Brazil because of the postponement of Tancredo's inauguration.

I am copying this to Sir Philip Moore (Buckingham Palace).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DRAFT MESSAGE OF CONDOLENCE FROM THE PRIME MINISTER TO VICE-PRESIDENT JOSE SARNEY OF BRAZIL

I was deeply saddened to learn of the death of President-elect Tancredo Neves so soon after his election victory and before he could assume his high office. His ~~many~~ talents and ~~long~~ experience will ~~I know~~ be greatly missed, not only in Brazil but by Brazil's friends throughout the world. We ~~grieve with all Brazilians at this tragic time.~~ Share the grief of your people at this sad moment.

"T" message attached

Foreign and Commonwealth Office

London SW1A 2AH

7 February 1985

NSPM

Dear David,

Prime Minister's Message to Brazilian President-Elect

I enclose a translation of a message from Sr Tancredo Neves in answer to the Prime Minister's congratulatory telegram to him.

Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

David Barclay Esq
10 Downing Street

Subject as master
of

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 21/85

Your Excellency,

It was with great satisfaction that I received Your Excellency's kind message on the occasion of my election to the Presidency of the Federative Republic of Brazil.

In sending you my sincere thanks and personal good wishes, may I express my firm belief that we will work together to strengthen the traditional ties of friendship that unite our two countries.

My highest consideration

TANCREDO DE ALMEIDA NEVES

President-elect of the Federative Republic of Brazil

BRAZIL : Pols

Sec 182

- 7 FEB 1985

CONFIDENTIAL

FCS SH

cc: SPC

10 DOWNING STREET

From the Private Secretary

29 January, 1985

Brazil: Presidential Inauguration

Thank you for your letter of 28 January about the invitation to HMG to send a representative to the inauguration of the President-elect of Brazil on 15 March.

The Prime Minister is delighted that Lord Whitelaw has agreed to represent HMG on this occasion and agrees that Lady Whitelaw should accompany him.

I am copying this letter to Janet Lewis-Jones (Lord President's Office).

C. D. POWELL

P. F. Ricketts, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

CONFIDENTIAL

(1)

Foreign and Commonwealth Office

London SW1A 2AH

28 January, 1985

Prime Minister
Agree that Lord Whitelaw should attend? And that Lady Whitelaw should accompany him?
Yes - excellent
Yes please
CDP 29/1

Dear Charles,

Brazil: Presidential Inauguation

We have now been formally invited by the President-elect of Brazil to send a representative to his inauguration on 15 March.

The Foreign Secretary considers it important that we should respond to this invitation by sending a senior member of the Government to Brasilia. Vice-President Bush is expected to attend, as are the French Foreign Minister, the President of the Italian Senate and the President of the Bundestag. Lord Whitelaw has very kindly agreed to undertake this and Sir Geoffrey Howe would be grateful for the Prime Minister's agreement that he should do so. It is intended that he should also undertake a short programme of visits in the margins of the inauguration in order to underline the importance we attach to our relations with Brazil.

Lord Whitelaw has asked whether it would be possible for Lady Whitelaw to accompany him. The Brazilians are planning on the basis that representatives' wives will attend the major ceremonies of the inauguration and Sir Geoffrey Howe belives that given the nature and importance of the occasion it would be appropriate for Lady Whitelaw to accompany him. He would therefore be grateful for the Prime Minister's authority for Lady Whitelaw to attend at public expense.

I am copying this letter to Janet Lewis-Jones (Lord President's Office).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

PS
PM

(14)

RESTRICTED

ALB014/2
RECEIVED IN REGISTRY No. 93
17 JAN 1985
277 - 1
REGISTRY
INDEX
Action taken
CA

DD 161730Z BRASILIA

GRS 50
RESTRICTED
DESKBY 161730Z
FM FCO 161623Z JAN 85
TO IMMEDIATE BRASILIA
TELEGRAM NUMBER 13 OF 16 JANUARY
YOUR TELNO 11: BRAZILIAN ELECTIONS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T8A/85

cc MASTER
OPS

(6)

1. THE PRIME MINISTER HAS APPROVED YOUR MESSAGE. PLEASE ARRANGE FOR IT TO BE DELIVERED AS SOON AS TANCREDO'S VICTORY IS OFFICIALLY CONFIRMED.

HOWE

NNNN
DISTRIBUTION
LIMITED
SAMD
NEWS D
INFO D
PS
PS/LADY YOUNG
PS/MR RENTON
PS/PUS
SIR W HARDING
MR DAVID THOMAS

The Prime Minister's message was as follows:

"I congratulate you most warmly on your election as President of the Federative Republic of Brazil. We in the United Kingdom are watching with interest and admiration the progress of democracy in Brazil, and I look forward to working closely with you over the coming years."

24 JAN 1985

FCE SH2ACG

10 DOWNING STREET

From the Private Secretary

16 January, 1985

Brazil: Congratulations to President Elect

Thank you for your letter of 15 January proposing a message from the Prime Mnister to Dr. Tancredo Neves upon his election as President of Brazil.

The Prime Minister agrees to the proposed message which should be telegraphed to Brasilia for H.M. Ambassador to deliver at the appropriate moment.

BF

C. D. POWELL

P. F. Ricketts, Esq.,
Foreign and Commonwealth Office

RESTRICTED

RESTRICTED

(1)

Foreign and Commonwealth Office

London SW1A 2AH

15 January 1985

Prime Minister

Agree to proposed message to President Elect?

CDP 15/1

Dear Charles,

Brazil: Congratulations to President Elect

An electoral college is meeting on 15 January to choose Brazil's next President. It is virtually certain that their choice will be the opposition candidate Dr Tancredo Neves.

Dr Tancredo Neves is an experienced elder statesman with a political career spanning over 50 years. Though his party, the Brazilian Democratic Movement, is centre-left, he heads the right-wing faction within it. He is expected to favour cautious, pragmatic economic policies as President. We recommend that the Prime Minister send Dr Tancredo Neves a message of congratulation. Our Ambassador in Brasilia has suggested the following text:

> "I congratulate you most warmly on your election as President of the Federative Republic of Brazil. We in the United Kingdom are watching with interest and admiration the progress of democracy in Brazil, and I look forward to working closely with you over the coming years."

I should be grateful if you could seek the Prime Minister's views. We can then authorise John Ure in Brasilia to deliver the message as soon as Dr Tancredo Neves' victory is confirmed.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED

10 DOWNING STREET

From the Private Secretary

9 May, 1984.

Defence Relations with Brazil

The Prime Minister has noted the content of your Secretary of State's minute of 8 May.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL

(2)

Prime Minister.

For information.

A.J.C. 8/5.

MO 25/15

PRIME MINISTER

DEFENCE RELATIONS WITH BRAZIL

You may be interested to know that on 11th-16th April the Ice Patrol Ship HMS ENDURANCE paid a successful visit to the Brazilian Antarctic logistic base at Rio Grande do Sul in southern Brazil - the first Royal Navy ship visit to the country since the Falklands conflict. The Brazilians have also in the last few days agreed to an extension of their emergency diversion facilities for the Falklands air-bridge.

2. We proposed a similar visit by ENDURANCE a year ago, but this had to be withdrawn because the Brazilians sought, as a condition of their agreement, an assurance that the ship would be returning from an exclusively Antarctic mission. They have not done so on this occasion. It may have helped that we sought a visit to their Antarctic logistic base, and that they have recently become a consultative party to the Antarctic treaty with our encouragement and help. The visit to Brazil last November by the Chief of the Naval Staff, Sir John Fieldhouse, also seems to have done much to smooth the way.

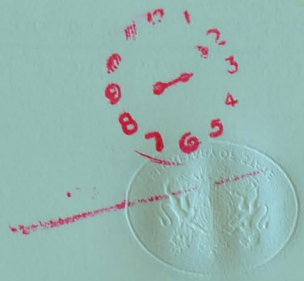
3. The extension of the air-bridge emergency facilities stems from a recent offer by the Brazilian Air Ministry to permit routine flights to the Falkland Islands to stage through their military airfields. Similar arrangement in1982 and 1983 were suspended by the Brazilian Foreign Ministry following unwanted publicity and subsequent Argentine pressure. We would not wish to repeat this and possibly jeopardise our much more important emergency facilities; our response has therefore been limited to seeking to extend these facilities to cover a broader range of diversions.

4. I remain cautious about these developments: the revival of ship visits in particular could still fall through because of Argentine pressure or policy reversals within the Brazilian government. Nevertheless Brazil is a useful counterweight to Argentina and the emergency facilities it makes available for the Falklands air-bridge are very valuable for our operations in the South Atlantic. Therefore, where appropriate, we intend to push ahead with low-key service-level contacts such as further ship visits.

5. I am sending copies of this minute to the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

Ministry of Defence
8th May 1984

- 8 MAY 1984



OO BRASILIA
GRS 79
UNCLASSIFIED
FM FCO 261100Z JUL 83
TO IMMEDIATE BRASILIA
TELEGRAM NUMBER 189 OF 26 JULY
INFO PRIORITY WASHINGTON
YOUR TELNO 268 : PRESIDENT FIGUEIREDO'S HEALTH
1. GRATEFUL IF YOU COULD PASS THE FOLLOWING MESSAGE TO PRESIDENT FIGUEIREDO FROM THE PRIME MINISTER.

BEGINS. I WAS MOST CONCERNED TO HEAR OF YOUR HEART OPERATION. MY COLLEAGUES AND I SEND OUR SINCERE GOOD WISHES FOR A SPEEDY AND FULL RETURN TO HEALTH. ENDS.

HOWE
NNNN

DISRIBUTION

LIMITED	PS/MR WHITNEY
SAMD	PS/PUS
NEWS DEPT	MR GIFFARD
PS	MR URE
PS/LADY YOUNG	

10 DOWNING STREET

From the Private Secretary 25 July 1983

PRESIDENT OF BRAZIL

Thank you for your letter of 21 July. The Prime Minister has approved a slightly revised version of the proposed message from her to President Figueiredo. It reads as follows:

> "I was most concerned to hear of your heart operation. My colleagues and I send our sincere good wishes for a speedy and full return to health."

I should be grateful if you could arrange for its delivery.

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

(1)

Prime Minister

Agree attached message to President of Brazil?

A.J.C. 22/7

Yes MT

Foreign and Commonwealth Office

London SW1A 2AH

21 July 1983

Dear John,

President Figueiredo of Brazil has recently had to go to the United States for heart surgery. Our Embassy in Brasilia report that he has successfully undergone this operation and is apparently on the road to recovery. The Ambassador has recommended that The Queen and the Prime Minister should send messages of sympathy.

As you know, we have important interests to preserve in our relations with Brazil. We are anxious to retain staging facilities for RAF flights to the Falklands, despite Argentine pressure on Brazil. Brazil's economic crisis and the exposure of British banks there are causing great concern. The Secretary of State believes that at this juncture a message of sympathy from the Prime Minister to President Figueiredo would both help preserve our own interests and be much appreciated by the Brazilian government. Sir Geoffrey Howe therefore recommends that the Prime Minister should send a short message along the lines of the attached draft.

Yours ever

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

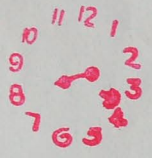
CONFIDENTIAL

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT FIGUEIREDO OF BRAZIL

I was most concerned to hear of your heart operation. ~~Please accept~~ My colleagues and I send our sincere good wishes for a speedy and full return to health.

MT

JUL 1983



E.R.

PA

CONFIDENTIAL

Prime Minister (2)

MLS 5/7

MLS

PRIME MINISTER

BRAZIL

Events are likely to move with great rapidity from now on. Today it became evident that the American Administration is trying to rally support for another extension of credit. Martin Feldstein asked me what would be our reaction to the use of considerable export/import bank credits (the analogue of our ECGD) as a temporary expansion of trade credit. The argument is that with additional export/import bank credit, combined with similar lines from other creditor countries, the commercial banks would be willing to increase their loans. This, he conjectured, might be sufficient then to cover the repayment of the BIS bridging loan, which falls due on 14 or 15 July.

I answered that I did not think the Government would agree to any such perversion of ECGD credits. Indeed, I think any such use would be improper, if not actually illegal. I thought it unwise to hold out any hope of our joining such an arrangement. (I hope I interpret your views correctly.)

I thought I ought to mention this to the Treasury. They took the same line. But Mr. Littler was also under the impression that the Bank would be suggesting a much softer line on the extension to Brazil. I doubt, however, either Loehnis or MacMahon will be a party to any suggestion of the subversion of ECGD credits.

I doubt this. But we shall soon see, when you get the Bank's paper. MLS

I also learned that notwithstanding the tough language used by Monsieur de Larosiere here, the argument is being put in the United States that Brazil has satisfied the external conditionality imposed by the IMF. It is "only" the internal conditionality that they are violating. I have no doubt that there will be considerable pressures coming from the American banks which will certainly find their way to de Larosiere's desk. However, I anticipate that there will be a lot of horse trading. We are likely to come under some pressure.

Unless the I.M.F. and the Banks are firm on this - every other Western American country will go the same way.

ALAN WALTERS
1 July 1983

CONFIDENTIAL

I spoke to Lawson, Volker, Leutwiler + Loehnis about this on Tues. night

SECRET

PRIME MINISTER

BRAZIL

Note by Loehnis for a speech attached —

In two weeks time Brazil will run out of money. The so-called bridging loan from the BIS will fall due on that date.

There will be great pressure from the Americans to renew the loan or to provide some additional facilities. There will also be firm opposition from Leutwiler, the Germans and the Dutch.

Up to the present, the Bank of England has supported the further extension of credit. I have no doubt that a memorandum and briefing from Loehnis to Robin Leigh Pemberton will again emphasise the need for rolling out more credit lines. As you can see from my memorandum of a month ago, Brazil has been heading for this new crisis for some weeks. It has abused the interbank market with the tacit approval of the Bank and the Fed, but with the condemnation of the Swiss, Germans and Dutch. We must now face the consequences.

There is still some question whether the Brazilians are in default of their IMF conditions. There is, however, such enormous pressure on the staff of the IMF to interpret events so that Brazil can be said to conform to the conditions of the loan, that we must not accept such assurances at their face value.

While the Brazilians can continue to get BIS "bridges", remaining interbank lines and yet more IMF loans, it is unlikely they will take the energetic measures to put their economy right. Instead they will produce arguments that it is politically impossible and that, although in the long run they are solvent, they just have a little difficulty for a year or so. (I heard these arguments on 17 June deployed by a Vice President of the World Bank.)

It is, however, financial blackmail. It will go on as long as it is profitable. We have to decide whether to stand up to the blackmailer and pay no more danegeld or whether to succumb again to yet another "bridge".

My view is that the sooner we desist paying, the sooner the blackmail will cease, and the sooner the Brazilian Government will tackle their own problems. The lack of a loan will concentrate their minds. (I realise that I am being very extra professional here!)

SECRET

Prime Minister (1) CC HMT

From Mr de la Rosière's talk with the Chancellor the IMF seem to be taking a tough stance on Brazil (and so, I believe, are the Treasury and Bank). Shall I ask for a Treasury Bank Paper on Alan's points?

MLS 29/6

I was glad to discover that Leutwiler has exactly these views. He believes that the Bundesbank and the Dutch will also strongly support Leutwiler in his resolution. (This will also be the first occasion on which the new Governor attends the BIS meeting.)

May I suggest:

a. you discuss this as soon as possible with the Chancellor to explore his views;

b. you call immediately for a situation paper from the Treasury, and perhaps also from the Bank; and

c. you convene a meeting to discuss our policy at this BIS meeting if necessary scheduled for 9/10 July.

ALAN WALTERS
29 June 1983

Brazil

CONFIDENTIAL

GRS 480
[CULL]
CONFIDENTIAL
DESKBY 210900Z
FM BRASILIA 201925Z FEB 83
TO IMMEDIATE FCO [? 46]
TELEGRAM NUMBER 45 OF 20 FEBRUARY
AND TO IMMEDIATE HM TREASURY, BANK OF ENGLAND
INFO PRIORITY WASHINGTON, RIO DE JANEIRO
INFO SAVING BONN, PARIS, SAO PAULO

MY TELNO 44: BRAZILIAN DEVALUATION

1. FRIDAY NIGHT'S ANNOUNCEMENT OF A 30% DEVALUATION, WHICH APPEARS TO HAVE TAKEN BOTH BRAZILIAN AND FOREIGN MARKETS BY SURPRISE, WAS PROMPTED BY:

(A) THE POOR PERFORMANCE OF BRAZIL'S EXPORTS IN JANUARY (AROUND US DOLLARS 150 MILLION SURPLUS), SET AGAINST A TARGET FOR 1983 OF DOLLARS 6 BILLION: AND

(B) THE CONTINUING DIFFICULTIES SURROUNDING THE RENEGOTIATION OF HER FOREIGN DEBT, SPECIFICALLY THAT PART EMBODIED IN PROJECT 4 (INTER-BANK LOANS). BRAZILIAN FINANCIAL AUTHORITES NO DOUBT CONSIDERED THAT A DEVALUATION OF THIS HEROIC SIZE WOULD IMPRESS FOREIGN BANKERS, WHO HAVE BEEN ESPECIALLY CRITICAL OF THE CRUZEIRO OVER-VALUATION.

2. REACTION ON THE PART OF THE BRAZILIAN PRIVATE SECTOR HAS BEEN ONE OF CONSTERNATION, MIXED WITH ANXIETY AS TO WHAT OTHER MEASURES MAY BE IN STORE. IT IS GENERALLY HOPED THAT THE LATTER WILL INCLUDE THE LOWERING OF DOMESTIC INTEREST RATES, ESPECIALLY NOW THAT COMPANIES WHICH HAVE BORROWED HEAVILY IN DOLLARS WILL BE DIRECTLY PENALISED BY THE DEVALUATION. BUT IT IS ALSO FEARED THAT PRICE CONTROLS MAY BE IMPROVED, AS THEY WERE AFTER THE 1979 MAXI-DEVALUATION, IN ORDER TO CURB THE INFLATIONARY IMPACT, AND THIS WOULD UNDOUBTEDLY HAVE A PUNISHING EFFECT ON COMPANIES' PROFITABILITY. ALREADY THE FINANCE MINISTRY HAS ANNOUNCED THE IMPOSITION OF COMPLEMENTARY EXPORT TAXES (AT RATES BETWEEN 10 AND 30%) ON OVER FIFTY PRIMARY PRODUCTS, TO PREVENT BRAZILIAN EXPORTERS FROM CUTTING THEIR PRICES AND THUS REDUCING THE CONSEQUENT INFLOW OF FOREIGN EXCHANGE.

/3. IN

3. IN A COMMUNIQUE SIGNED BY THE FINANCE AND PLANNING MINISTERS IT WAS EXPLAINED THAT THE MAXI-DEVALUATION REPRESENTED IN LARGE PART AN ANTICIPATION OF THE MINIDEVALUATIONS OF AN EXTRA 1% OVER THE MONTHLY RATE OF INFLATION THROUGHOUT 1983 TO WHICH BRAZIL HAD PLEDGED HERSELF IN HER LETTER OF INTENT TO THE IMF. THE COMMUNIQUE POINTS OUT THAT THIS INCREASED RATE OF MINI-DEVALUATION HAD LED TO DAMAGING EXPECTATIONS OF HIGHER INTEREST RATES.

4. THE GOVERNMENT'S REPUTATION WILL HAVE TAKEN A FURTHER KNOCK AS A RESULT OF THIS UNEXPECTED VOLTE-FACE. BOTH DELFIM AND GALVEAS HAVE STRENUOUSLY DENIED THE POSSIBILITY OF A MAXI-DEVALUATION EVER SINCE THE IMF TEAM FIRST SUGGESTED IT LAST NOVEMBER. BUT EXTERNALLY THE EFFECT ON INTERNATIONAL CONFIDENCE IN BRAZIL'S HANDLING OF HER VERY TRICKY ECONOMIC AND FINANCIAL PROBLEMS SHOULD BE BENEFICIAL. MY AMERICAN COLLEAGUE, WHO DISCUSSED THE SITUATION WITH DELFIM ON FRIDAY NIGHT, WAS MOST IMPRESSED BY HIS EVIDENT DETERMINATION NOT TO HAVE RECOURSE TO A MORATORIUM BUT TO PRESS FORWARD TO AN AGREEMENT WITH THE FOREIGN BANKS AS SOON AS POSSIBLE.

FCO PLEASE PASS ALL EXCEPT SAO PAULO

HARDING

[PASSED AS REQUESTED]

FINANCIAL
S AM D

CONFIDENTIAL FILE

SVRJ6G
cc Marks

Brazil.

dsg

10 DOWNING STREET

From the Private Secretary

15 December 1982

Dear John,

BRAZIL

The Prime Minister discussed briefly with the Chancellor the proposed rescue operation for Brazil, about which the Chancellor minuted the Prime Minister later today.

The Prime Minister agrees to the Bank of England participating as to $ 110 million in the proposed bridging loan, against a Government guarantee. She is not clear that it would be right to indicate that it is the Government's intention to seek specific statutory powers to cover this operation, and has asked that the Chancellor discuss this with the Lord President. The Prime Minister has commented that she would be strongly opposed to any proposal to join in a similar operation for Argentina.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), David Heyhoe (Lord President's Office), Tim Allen (Governor of the Bank of England's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

CONFIDENTIAL

Not Argentina,

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Agree Brazil.
Sort out legal
point with L-Pym.
MT.

PRIME MINISTER

BRAZIL

In my minute of 8 December to Francis Pym about Yugoslavia I mentioned that we and other Western Governments were being pressed by the Americans to help with a rescue operation for Brazil, which now faces an immediate liquidity crisis. (This potential problem had been signposted in John Kerr's letter of 26 November to Michael Scholar.)

2. We had a word about this today. This minute confirms what I then said, and seeks your agreement to what I believe we should do.

3. As my office told yours on 9 December, G5 considered the problem last week; and it has since been explored at the monthly Basle meeting of BIS Governors. The proposal which has now emerged from the Basle discussions is for central bank assistance of $1.2 billion, of which the Americans would put up $500 million. (This is a slight back-tracking by the Americans, who had previously indicated willingness to find $600 million, in addition to $1.23 billion which they had provided already.)

4. Of the non-US element the major participants would be UK, Germany and Japan at $110 million each, Canada with $90 million and France with $80 million. The Spaniards, Swiss, Nordics etc. would contribute small sums as well.

5. The loan would be bridging to an IMF facility currently under negotiation. An outline Letter of Intent is about to be

signed, and first drawings are expected to become available in February, with the whole of the $1.2 billion being intended to be refinanced from the IMF in the course of 1983.

6. The UK share of $110 million is a broad brush figure, with no pretence to being related very scientifically e.g. to relative exposure of UK banks in Brazil. The Bank of England in fact believe the exposure of German banks to be smaller than that of UK-owned banks; but there are few reliable figures and those for official credit guarantees would point in the other direction, with the Germans having a very big exposure and the UK being about fifth. There is no question of the Bank of England being able to carry a contingent commitment of this order on its own capital and reserves, and the Bank will need a Government guarantee, as with Mexico.

7. In Mexico the UK share was $140 million out of a total facility of $925 million. Our participation in the Brazilian operation would be for $110 million out of $600 million i.e. broadly the same sort of basis as for Mexico.

8. If you agree that we can confirm our participation on the above basis - and it would be very helpful to have your reaction tonight - I would propose to announce this by written PQ tomorrow. We shall also need to seek specific statutory powers to cover such operations - we did without for Mexico, but ought really to regularise the position, though it would be sufficient now to indicate our intention to do so. The actual legislation could be left for the next session: an opportunity will arise in the context of legislation connected with forthcoming developments on the IMF front.

9. As with Mexico, there is no call on public expenditure unless the guarantee is called. But looking at the totality of current international debt rescues and likely rescheduling, (Mexico, Brazil, Yugoslavia) we must obviously face the possibility of some significant costs to public funds, at least in PSBR terms and

possibly in public expenditure too.

10. At some stage we may have to face pressure to join in a rescheduling operation for Argentina. This would not necessarily involve public expenditure; but would, I recognise, present severe political problems even so. I shall keep you informed if the question starts to become actual.

11. I am copying this minute to the Governor of the Bank of England, to the Foreign and Commonwealth Secretary, and to Sir Robert Armstrong.

G.H.

15 December 1982

CONFIDENTIAL

Brazil

GRS 1220
CONFIDENTIAL
FM BRASILIA 11:1400Z NOV 82
TO PRIORITY FCO
TELEGRAM NUMBER 426 OF 11 NOVEMBER
REPEATED INFO PRIORITY WASHINGTON
SAVING INFO EC POSTS, OTTAWA, UKMIS NEW YORK, LATIN AMERICAN POSTS

NEXT WEEK'S BRAZILIAN ELECTIONS

SUMMARY

1. ON 15 NOVEMBER THE MOST IMPORTANT ELECTIONS SINCE 1962 WILL BE HELD IN BRAZIL. ALL MAJOR PUBLIC OFFICES EXCEPT THE PRESIDENCY WILL BE AT STAKE. HELPED PARTLY BY MANIPULATION OF THE VOTING PROCEDURES AND BY THE PERSONAL INTERVENTION OF THE PRESIDENT IN THE CAMPAIGN, THE GOVERNMENT PARTY (PDS) IS EXPECTED TO RETAIN ITS PRE-EMINENT POSITION. BUT THE OPPOSITION WILL MAKE IMPORTANT GAINS, POSSIBLY WINNING THE MAJOR STATE GOVERNORSHIPS IN THE INDUSTRIAL CENTRE AND SOUTH. THE OUTCOME WILL TEST BOTH THE COMMITMENT OF THE MILITARY TO ABERTURA AND THE POLITICAL MATURITY AND COHESION OF THE OPPOSITION. THE IMPLICATIONS FOR THE PRESIDENTIAL ELECTION IN JANUARY 1985 WILL BE PARTICULARLY IMPORTANT. MEANWHILE, WHATEVER THE RESULTS, THE OVERALL DIRECTION OF GOVERNMENT POLICY WILL REMAIN SUBSTANTIALLY UNIMPAIRED IN PRESIDENT FIGUEIREDO'S HANDS.

WHO ELECTS WHOM

2. ON 15 NOVEMBER SOME 54 MILLION BRAZILIANS WILL GO TO THE POLLS IN THE MOST IMPORTANT BRAZILIAN ELECTION FOR OVER 20 YEARS. THEY WILL ELECT, INTER ALIA, 22 STATE GOVERNORS (OUT OF 23), 25 SENATORS (OUT OF 67), 479 FEDERAL DEPUTIES, 600 STATE CONGRESSMEN AND SOME 23,000 REGIONAL AND MUNICIPAL OFFICIALS. MOST OF THE IMPORTANT RESULTS SHOULD BE KNOWN WITHIN 2 DAYS: BUT THERE ARE LIKELY TO BE MANY RECOUNTS AND ACCUSATIONS OF MALPRACTICE, AND IT COULD BE A MONTH OR MORE BEFORE THE FULL PICTURE IS KNOWN.

POLITICAL PARTIES

3. THE ELECTIONS WILL BE FOUGHT PRIMARILY BETWEEN THE TWO MAJOR POLITICAL PARTIES WITH NATIONWIDE ORGANISATIONS: THE GOVERNMENT SOCIAL DEMOCRATIC PARTY (PDS) AND THE OPPOSITION BRAZILIAN DEMOCRATIC MOVEMENT (PMDB). THREE OTHER RECENTLY-FORMED REGIONAL GROUPS, THE LEFT-WING WORKERS PARTY (PT), THE SOCIALIST DEMOCRATIC LABOUR PARTY (PDT) AND THE POPULIST BRAZILIAN LABOUR PARTY (PTB) COMPLETE THE LIST OF CONTENDERS. NONE OF THESE ARE PARTIES WITH A CLEAR-CUT AND TRADITIONAL PLATFORM ON THE EUROPEAN PATTERN: THEY ARE RATHER AMORPHOUS CONGLOMERATIONS OF

CONFIDENTIAL / INTEREST

INTEREST GROUPS AND PERSONALITIES, MANY OF THEM STRANGE BEDFELLOWS. AS A RESULT, THIS WILL NOT BE AN ELECTION OF RIGHT VERSUS LEFT IN THE ACCEPTED SENSE: AND MOST OF THE CONTESTS WILL BE DECIDED BY REFERENCE TO LOCAL ISSUES AND PERSONAL RIVALRIES.

ELECTORAL SYSTEM

4. VOTING PROCEDURES ARE HIGHLY COMPLEX. STATE GOVERNORS AND LOCAL OFFICIALS WILL BE ELECTED ON A 'FIRST PAST THE POST' BASIS: BUT SEATS IN THE FEDERAL CHAMBER OF DEPUTIES AND IN EACH STATE LEGISLATURE WILL BE ALLOCATED ACCORDING TO THE PROPORTION OF THE TOTAL VOTE WHICH CANDIDATES OF A GIVEN PARTY OBTAIN. IN ADDITION, THE GOVERNMENT HAS RECENTLY INTRODUCED LEGISLATION PROHIBITING VOTERS FROM SPLITTING THEIR VOTES BETWEEN CANDIDATES FROM DIFFERENT PARTIES, IE VOTING FOR A PDS MAYOR AND AN OPPOSITION GOVERNOR. THE RESULT IS LIKELY TO BE A LARGE NUMBER OF ANNULLED VOTES AND CONSIDERABLE CONFUSION, DELAY AND ACCUSATIONS OF MALPRACTICE IN CLOSE RUN CONTESTS.

RESULTS

5. THE SUCCESS OR FAILURE OF THE PARTIES WILL BE JUDGED PRIMARILY ON THE RESULTS OF THE GUBERNATORIAL ELECTIONS. AT PRESENT, ALL BUT ONE OF THE 23 STATE GOVERNORSHIPS ARE IN PDS HANDS. BUT THIS IS THE FIRST TIME FOR NEARLY 20 YEARS THAT THE POSTS HAVE BEEN FILLED BY DIRECT POPULAR VOTE. THE OPINION POLLS SUGGEST THAT THE GOVERNMENT PDS PARTY WILL WIN APPROXIMATELY TWO-THIRDS OF THE GOVERNORSHIPS, MAINLY THOSE IN THE TRADITIONAL AND BACKWARD NORTH-EASTERN REGION, BUT WILL LOSE CONTROL OF SOME OF THE KEY STATES IN THE MORE POPULOUS INDUSTRIAL SOUTH - NOTABLY SAO PAULO WHERE THE CURRENT RECESSION IS MOST ACUTELY FELT. THE PDS ARE ALSO EXPECTED TO MAINTAIN CONTROL OF THE SENATE AND TO REMAIN THE LARGEST PARTY IN THE CHAMBER OF DEPUTIES WHILE LOSING THEIR OVERALL MAJORITY. BUT THE POLLS ARE ALSO STILL SHOWING SOME 20 PER CENT OF VOTERS AS UNDECIDED: SO THERE IS STILL MUCH TO PLAY FOR.

SIGNIFICANCE

6. WHAT WILL IT ALL MEAN FOR BRAZIL? MOST IMPORTANTLY, IT WILL NOT CAUSE ANY CHANGE IN THE PERSONALITIES AT THE CENTRE OF THE POWER STRUCTURE OR IN THE MAIN LINES OF THE POLICIES THEY ARE NOW PURSUING. PRESIDENT FIGUEIREDO APPOINTS HIS OWN ADVISERS AND MINISTERS, WHO ARE NOT RESPONSIBLE TO PARLIAMENT OR THE ELECTORATE. WHATEVER THE RESULT OF THE ELECTIONS, IT IS MOST UNLIKELY THAT HE WILL ALLOW HIMSELF TO BE PUSHED INTO JETTISONING EITHER KEY POLICY MAKERS, SUCH AS DELFIM NETTO, OR THE POLICIES THEY REPRESENT.

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8. THE PRESIDENT HAS THROWN HIMSELF WHOLEHEARTEDLY INTO CAMPAIGNING FOR THE PDS, A TASK AT WHICH, BY GENERAL CONSENT, HE HAS PROVED HIMSELF EXTREMELY ADEPT. BUT HIS REPUTATION STANDS APART FROM (AND MUCH HIGHER THAN) THAT OF THE PDS, AND HIS PERSONAL PRE-EMINENCE IS UNLIKELY TO SUFFER FROM ANYTHING LESS THAN AN UNEXPECTEDLY CRUSHING OPPOSITION SUCCESS.

9. HOWEVER, THE ELECTIONS WILL ALTER THE PRESENT POLITICAL BALANCE OF POWER AND THE FUTURE OUTLOOK IN A NUMBER OF WAYS:

(A) THE ELECTIONS WILL SERVE TO ASSESS THE VOTE-CATCHING ABILITIES OF THE CONTENDING PARTIES AND PERSONALITIES AND INDICATE THE WAY VOTING PATTERS HAVE DEVELOPED DURING THE PAST 18 YEARS OF MILITARY RULE, WITH ITS ACCOMPANYING RAPID INDUSTRIAL AND SOCIAL CHANGE. THESE POINTERS WILL INFLUENCE THE PRESIDENT'S THINKING AND THAT OF HIS MILITARY COLLEAGUES AS TO THE PACE AND DIRECTION THAT ABERTURA SHOULD TAKE. THEY WILL ALSO HELP THE OPPOSITION PARTIES TO MEASURE THEIR STRENGTH AGAINST THE GOVERNMENT AND TO DECIDE FUTURE TACTICS.

(B) THE OUTCOME WILL ALSO INFLUENCE THINKING ON THE RESIDENTIAL ELECTION DUE IN JANUARY 1985, AT THE END OF PRESIDENT FIGUEIREDO'S 6-YEAR TERM OF OFFICE, WHICH WILL BE THE NEXT AND THE MOST CRITICAL MILESTONE ON THE ROAD TO FULL-BLOWN DEMOCRACY. ACCORDING TO THE PRESENT CONSTITUTION, THE NEXT PRESIDENT WILL BE CHOSEN, OR AT LEAST ENDORSED, BY AN ELECTORAL COLLEGE WHOSE COMPOSITION WILL DEPEND ON THE OUTCOME OF THE IMPENDING ELECTIONS. PRESIDENT FIGUEIREDO WOULD PROBABLY LIKE TO HAND OVER TO A CIVILIAN IF POSSIBLE: BUT AN UNEXPECTEDLY GOOD SHOWING BY THE OPPOSITION IN THESE ELECTIONS COULD PERSUADE MANY OF HIS MILITARY COLLEAGUES THAT THE TIME IS NOT YET RIPE FOR SUCH A FURTHER STEP TOWARDS RELINQUISHING THEIR HOLD ON POWER.

(C) THE COMMITMENT OF THE MILITARY TO ABERTURA WILL BE MORE IMMEDIATELY TESTED IN THEIR WILLINGNESS TO ACCEPT SOME OF THE OPPOSITION FIGURES LIKELY TO BE ELECTED AS STATE GOVERNOR - IN PARTICULAR, LEONEL BRIZOLA IN RIO DE JANEIRO, WHO AS A LEADING FIGURE OF THE PRE-1964 CIVILIAN REGIME IS THEIR

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PARTICULAR BETE NOIR. FIGUEIREDO HAS HOWEVER SAID THAT, IF ELECTED, BRIZOLA WILL BE ALLOWED TO TAKE OFFICE: AND THIS EXPLICIT UNDERTAKING SHOULD SUFFICE TO DISCOURAGE ANY CONTRARY IDEAS AMONG THE HARD-LINERS.

(D) THE NEWLY-ELECTED GOVERNORS WHO WILL TAKE OFFICE ON 1 MARCH 1983 WILL HAVE MORE POWER AND STATUS THAN THEIR PREDECESSORS, HAVING ATTAINED THEIR POSITION BY DIRECT POPULAR VOTE. ALL THESE GOVERNORS, WHETHER PDS OR OPPOSITION, WILL HAVE AN INTEREST IN TEMPERING ANY POST-ELECTION ECONOMIC AUSTERITY PROGRAMME, WHICH MAY BE DECREED BY THE FEDERAL GOVERNMENT. OPPOSITION GOVERNORS ELECTED IN SUCH POWERFUL AND WEALTHY STATES AS SAO PAULO AND RIO DE JANEIRO WILL ALSO INEVITABLY BECOME A VOCAL FOCUS FOR CRITCISM OF GOVERNMENT POLICIES, PARTICULARLY IF THEY CAN CO-ORDINATE THEIR ACTIVITIES BETWEEN EACH OTHER. BUT THEY WILL PROBABLY BE PRUDENT ENOUGH TO AVOID ROCKING THE BOAT TOO MUCH OR TOO SOON: AND THEY WILL BE WELL AWARE THAT THE CENTRAL GOVERNMENT, THROUGH ITS CONTROL OF THE PURSE-STRINGS, STILL HAS POWERFUL SANCTIONS TO HAND TO USE AGAINST THEM.

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FOLLOWING FROM PRIVATE SECRETARY

UNGA 37: SECRETARY OF STATE'S MEETING WITH BRAZILIAN FOREIGN MINISTER

1. THE SECRETARY OF STATE MET SR GUERREIRO FOR 40 MINUTES ON 30 SEPTEMBER. IT WAS A FRIENDLY MEETING, CONCENTRATING ON THE FALKLANDS, VENEZUELA/GUYANA AND BELIZE.

FALKLANDS

2. GUERREIRO SAID HIS GOVERNMENT HAD PERHAPS BEEN MORE PESSIMISTIC THAN EVENTS HAD WARRANTED ABOUT THE PROSPECTS FOR STABILITY IN ARGENTINA FOLLOWING THE HOSTILITIES. THEY HAD FEARED AN UNCONTROLLED TRANSITION, WHEREAS THERE WAS A CERTAIN CONTROL IN THE CURRENT POLITICAL PROCESS WITH ELECTIONS PROJECTED FOR NEXT YEAR. THESE WOULD PROBABLY GO THROUGH - THOUGH HE WOULD NOT WISH TO MAKE ANY PROPHECIES. MR PYM SAID WE FOUND IT DIFFICULT TO DEAL WITH THE ARGENTINE AUTHORITIES: THEY WERE NOT ORGANISED ENOUGH TO TAKE DECISIONS. GUERREIRO THOUGHT THAT AS A GOVERNMENT WHICH WAS SUPPOSED TO BE VERY WEAK, IT WAS DOING BETTER THAN MIGHT HAVE BEEN EXPECTED: HE HAD A GOOD IMPRESSION OF AGUIRRE LANARI AND BIGNONE WAS ''BALANCED'', A MAN OF VIOLA AND VIDELA'S GROUP RATHER THAN GALTIERI'S. MINISTERS WERE BASICALLY MODERATE THOUGH THE SIGNS WERE STILL MIXED.

3. MR PYM SAID WE WERE TRYING TO NORMALISE COMMERCIAL AND DIPLOMATIC RELATIONS FOLLOWING THE LIFTING OF FINANCIAL RESTRICTIONS BUT THE ARGENTINES WERE NOT ANXIOUS TO RECIPROCATE. GUERREIRO SAID THE ARGENTINES SAW THE POSSIBILITY OF ''NORMALISATION'' AS THEIR ONLY CHIP IN THE GAME TO WIN A BRITISH COMMITMENT TO NEGOTIATE ON THE ISLANDS. HE RECOGNISED THE FIRMNESS OF OUR POSITION ON NEGOTIATION. AS FAR AS THE UN RESOLUTION WAS CONCERNED, HE THOUGHT THIS SHOULD NOT PREJUDGE ANY NEGOTIATIONS, INDEED BRAZIL WOULD SETTLE FOR SOMETHING MUCH CLOSER TO THE BRITISH POSITION. THEY WISHED TO BE HELPFUL. MR PYM SAID THE CENTRAL CONSIDERATION WAS STILL THE ISLANDERS: THEY HAD TO DEAL WITH THE MINES AND THE WAR DAMAGE AND WOULD NEED TIME TO GET OVER THEIR EXPERIENCES.

CONFIDENTIAL /VENEZUELA/

VENEZUELA/GUYANA

4. MR PYM RAISED THE MATTER. GUERREIRO SAID THAT HE WAS WORRIED ABOUT THE DOMESTIC SITUATION IN BOTH VENEZUELA AND GUYANA. THE VENEZUELENS HAD TOLD HIM INFORMALLY THAT THEY HAD NO BELLICOSE INTENTIONS BUT THEIR PUBLIC PRONOUNCEMENTS WERE MORE AMBIGUOUS. THE PRESIDENT AND THE FOREIGN MINISTER WERE NATURALLY VERY ALIVE TO THE POLITICAL SENSITIVITY OF THE ISSUE WITHIN VENEZUELA. THE GUYANESE WERE ALSO USING THE QUESTION TO MOBILISE THE PEOPLE. A MILITARY CONFRONTATION OVER THE CONFLICT WOULD BE IDIOTIC AND A PEACEFUL PRACTICAL SOLUTION MUST BE FOUND. THE GENEVA PROTOCOL SPECIFIED ''PRACTICAL'' AND THERE WAS NO CHANCE OF A JURIDICAL SETTLEMENT THROUGH THE ICJ SINCE VENEZUELA WOULD NOT ACCEPT THAT COURSE. THE PROBLEM WAS NOW IN THE LAP OF THE SECRETARY-GENERAL ALTHOUGH THE GUYANESE HAD STILL NOT MADE A FORMAL NOTIFICATION TO HIM. THE FRIENDS OF BOTH PARTIES SHOULD INFLUENCE THEM TOWARDS GOOD SENSE. GUYANA MUST ACCEPT SOME KIND OF ''MINIMAL'' NEGOTIATION, EVEN THOUGH THIS DID NOT NEED TO BE CALLED ''NEGOTIATION''.

BELIZE

5. MR PYM ASKED IF BRAZIL HAD A VIEW ON THE PROSPECTS FOR BELIZE ACCEDING TO THE RIO TREATY. GUERREIRO SAID HE HAD NOT LOOKED INTO THE QUESTION OF ACCESSION. HE WAS AWARE OF THE PROVISION IN THE OAS CHARTER, ORIGINALLY PROPOSED BY VENEZUELA, WHICH EXCLUDED NEW MEMBERS HAVING TERRITORIAL DISPUTES WITH MEMBER STATES. BUT HE THOUGHT THIS WAS QUITE INDEPENDENT OF THE RIO PACT: HE PROMISED TO LOOK INTO THIS.

BILATERAL

6. MR PYM STRESSED THAT THE UK LOOKED FORWARD TO HAVING GOOD RELATIONS WITH BRAZIL AND OTHER COUNTRIES IN THE REGION: AS DID HER EUROPEAN ALLIES. GUERREIRO AGREED THAT BRAZIL HAD NO PROBLEMS WITH THE UK AND NO INTEREST IN CREATING PROBLEMS. HE WOULD LIKE TO SEE MR PYM VISIT BRAZIL, AND WOULD KEEP IN MIND THE POSSIBILITY OF ANOTHER VISIT TO LONDON.

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