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BRITISH INVESTMENT IN BRAZIL: THE RELEVANT CENTURY, 1850-1950[1]

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[1]British investment in this paper refers to either British direct investment in Brazil or to British holdings of private securities of firms operating in Brazil.

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Abstract

This paper examines the history of British direct investment in Brazil as well as that of holdings of sterling-denominated private securities of firms operating in Brazil. It is natural to divide the paper into five sections based on the long-term trends of British investment in Brazil: pre-1890 (years of consolidation), 1890-1914 (years of stagnation followed by a boom), 1914-1930 (signs of decline), 1930-1952 (divestment as a policy) and a final section which will include besides the main conclusions a short mention to the post-1950 period.

1. Introduction

Even with the risk of being too obvious it is important to discuss the long term quantitative trends of British investment in Brazil as it is crucial to establish an adequate chronology to deal with such a complex subject as British investment in Brazil from the mid-19th century to the mid-20th century. Data on British direct investment in Brazil from the 1840s to the early 1950s are presented in tables 1 and 2. Data on the sectoral distribution of investments are presented in tables 3 and 4.

British investment in Brazil was rather modest before 1875 concentrating essentially in railways and public utilities. After 1875 the rate of inflow increased substantially and was sustained until the mid-1890s. The share of railways increased to more than 80% the bulk of the rest corresponding to public utilities and

Table 1

British Direct Investment and Holdings of Corporate Securities, Brazil, in millions of pounds, 1840-1913

	Total	Direct Investment	Corporate Securities		
			Total	Brazilian Firms	Canadian Firms
1840	1.3	1.3	-	-	-
1865	7.3	7.2	-	-	-
1875	10.5	10.6	-	-	-
1885	24.4	22.4	2.0	2.0	-
1895	40.6	24.0	16.6	16.6	-
1905	41.1	29.6	11.5	4.6	5.0
1913	135.2	56.7	78.5	6.2	38.6

Source: Stone (1977). Data refer to paid-in share capital and the face value of debentures.

Table 2

British Direct Investment and Holdings of Corporate Securities, Brazil, in millions of pounds, 1930-1951

	Total	UK registered companies		Companies registered abroad	
		Share capital	Loan capital	Share capital	Loan capital
1930	118.6@				
1936	103@				
1938	/80.5#	33.8#	17.0#	14.9#	14.8#
1940	98@/80.7#	33.8#	17.0#	14.9#	15.0#
1943	92@/75.1#	32.0#	16.4#	14.9#	11.8#
1945	85@/67.9#	27.9#	15.5#	14.9#	9.6#
1948	/67.9#	23.3#	11.1#	14.6#	5.3#
1949	76.8@				
1951	/31 #				

Sources: Bank of England (1950) and Bank of England (1951) marked # and Rippy (1959) and Spiegel (1949) both using <u>South American Journal</u> data, marked @. SAJ data are open to criticism as they refer to nominal values, they do not include securities sold privately and they do not take into account foreign holding of British securities and conversely. BOE data also exclude securities not quoted in the London Sock Exchange and have a more limited coverage, see United Nations (1955), p.156.

Table 3

British Direct Investment and Holdings of Private Securities by Sector, Brazil, 1865-1913

	1865	1875	1885	1895	1905	1913
Railways	5.4	6.4	17.1	33.1	24.0	59.1
Public Utilities	0.8	2.7	3.0	3.4	6.6	55.0
Financial & Land	-	-	-	-	0.2	5.0
Financial Trusts	-	-	-	-	1.5	4.2
Coffee and rubber	-	-	-	-	1.6	2.2
Mines, nitrate and oil	0.6	0.4	0.9	1.0	2.0	1.5
Iron, coal and steel	-	0.1	0.1	-	-	0.1
Industrial and commercial cies.	0.5	0.9	3.3	3.2	3.6	8.0
Residual	-	-	-	-	1.6	-
Total	7.3	10.5	24.4	40.6	41.1	135.2
Investments in Latin America which are impossible to allocate to countries						
Banks	2.0	3.2	2.4	5.0	9.4	24.3
Shipping	2.9	4.8	3.0	3.1	6.0	18.3

Source: Stone (1962).

Table 4

British Direct Investment and Holdings of Private Securities by Sector, Brazil, Millions of Pounds, 1913-1949

	Total	Railways	Other	Public Utilities
1913	106.5	52.3	54.1	
1928	120.7	49.5	71.2	40
1930	119	49	70	
1936	103	38	65	
1940	98	36	62	
1943	92	33	59	
1945	85	31	54	
1949	76.8	25.2	51.6	

Sources: Rippy (1949) and Spiegel (1949) both relying on The South American Journal. British estimates for 1913 seem somewhat on the lower side if compared with the rest the series.

British investment in Brazil was rather modest before 1875 concentrating essentially in railways and public utilities. After 1875 the rate of inflow increased substantially and was sustained until the mid-1890s. The share of railways increased to more than 80% the bulk of the rest corresponding to public utilities and industrial and (mainly) commercial companies. Stagnation between 1895 and 1905 was due partly to the severe economic crisis which affected Brazil and to the conversion of guaranteed railway investments into federal government bonds in a major financial operation in 1902.

The nine years before 1914 marked the heyday of British private investment and purchase of private securities in Brazil: no less than 10.5 million pounds yearly entered the country. Two thirds of the total increase in stock can be ascribed to the purchase of corporate securities. This is a very important qualification to arguments which overstress the importance of British direct investment in Brazil and is in sharp contrast with the characteristics of American investment which was overwhelmingly direct. The share of railway investment fell quite rapidly to less than 44% of total investment and was almost overtaken by investment in public utilities. This took mainly the form of investment in securities of non-British public utility companies of which the most important were Canadian: by 1912 no less than 22.9 million pounds had been invested in securities of the Brazilian Traction Light and Power, a major public utility operator incorporated in Canada [3] .

Stagnation and possibly a slow decline of the total sock of British investment in Brazil started after the First World War. Decline accelerated after 1930 and proceeded until the late 1940s cutting down more than a third of the 1913 stock. Further reduction in 1948-52 using blocked sterling balances made the role of British investment rather insignificant as an economic policy issue in Brazil.

The chronology based on behaviour of the stock of foreign investment is matched by the record concerning rates of return. Average yields on British railway investments in Brazil were generally above 5%, reaching almost 5.7% in 1913 [4]. After the First World War as provisions to counter the impact of foreign exchange devaluation were much less effective they fell to 2.5% in 1923 and during the depression to 1.5%. Even the San Paolo Railway, by far the most efficient railway enterprise in Brazil, which had returned yelds of 11.2% on average in 1876-1930 could do no better than 3.1% in the 1930s and 2.8% in the 1940s as it faced a heavy debenture service. Average yelds on investments other than railways were considerably higher, above 5% before 1933 then below 2% in the 1930s but rising to more than 7% in the late 1940s

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[3] British holdings of securities of Brazilian firms amounted to 6.2 million pounds in 1913. See Stone (1977), p. 713.

[4] See Rippy (1959) , ch. XIII. These yelds were not spectacular but perfectly respectable, see Edelstein (1982), p.153.

It is consequently natural to divide the paper into five sections based on the long-term trends of British investment in Brazil: pre-1890, 1890-1914, 1914-1930, 1930-1952 and a final section which will include besides the main conclusions a short mention to the post-1950 period.

1. The Imperial Years: 1850s-1889

British influence in Brazil between 1850 and 1890 was overwhelming. This was firmly rooted in the British economic and financial preeminence. Britain was the practically the only supplier of capital to Brazil during the Empire and was the major -- even if rapidly declining -- supplier of goods to Brazil. British-owned commercial banks operating in Brazil played a major role in financing trade, agriculture and industry. Britain supplied the bulk of specialized labour force required by industry -- mainly textile --, railway construction and operation as well as many other relatively sophisticated activities. British shipping dominated commercial links with the world economy. Only as a market for Brazilian commodities and coffee more especially Britain had already lost its place of dominance since the mid-1850s.

In this initial phase British involvement in the Brazilian economy was closely linked to the development of the export infrastructure. The provision of modern urban services induced by the fast growth of urban population, which was to be the other major source of attraction of foreign capital, was still rather modest in the mid-1880s.

To attract foreign capital the Brazilian Imperial Government made lavish use of legislation which guaranteed a minimum rate of return typically of 6% or 7% for up to 60 years especially in the case of railways and sugar processing plants. These guarantees were frequently split between the central and provincial government. Above a certain rate of return, typically 8%, profits were to be split between the companies and guarantors. Certain successful railways gave up their guarantees as soon as it became clear that its rate of return was likely to be above the 8% threshold . There is some evidence that the system led to some abuse as in certain cases guaranteed capital was defined on an open per kilometer basis [5].

So perhaps the major difficulty faced by foreign capital invested in an economy outside the gold standard was circumvented as the actual rate of return was invariant in relation to foreign exchange rate fluctuations. On the other hand while exchange rate fluctuations seemed staggering for an European or American observer they were not so large if compared to later periods: if

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[5] See Pinto (1903), pp. 182 and ff. and Duncan (1932), pp.26-7.

the exceptional year of 1868 is excluded, extreme exchange rate quotations between 1865 and 1889 kept between 17 1/2 and 27 1/4 pence per mil réis.

Foreign exchange rate depreciation resulted in higher costs of imported inputs, parts and components as well as capital goods. It also had a direct impact on those companies indebted in the international financial market. Given the level of profits exchange depreciation would of course reduce the profitability in foreign currency which was what mattered for the foreign investor. Exchange depreciation would have as an automatic result the increase of public service tariffs [6].

It is interesting to note that as early as 1885 there were already modest British holdings of sterling securities of Brazilian companies. These were mainly railway securities of companies in which coffee growers also had interests.

The stories of success of British investment in Brazil before the Republican period were quite diversified: railways, mining, public utilities and banking [7]. The San Paolo Railway linking the port of Santos to the city of São Paulo enjoyed the de facto monopoly of railway transportation of Paulista coffee exports which were rapidly displacing the older producing regions

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[6] See Saes (1986), pp.160 and ff.
[7] See Rippy(1959), ch. XIII.

in the last 25 years of the Empire. It was the most profitable British-owned railway company in Latin America and by the late 1880s it was paying dividends in the region of 10-12% [8]. Whereas investment in the St. John del Rey Mining Co., a gold-minig company established in the State of Minas Gerais in 1830 was rather limited -- in the region of 300.000 pounds --- its average return until the mid-1880s was significantly above 20% yearly. Gas companies were also initially rather sucessful both in Rio and São Paulo. It is impossible to distribute banking profits among the different Latin American countries were they operated. Both the London and Brazilian Bank and the English Bank of Rio de Janeiro paid dividends of at least 9% in the 20 years before the early 1890s [9] .

The most important sectoral failure of British investment in Brazil was that of sugar central mills installed in the Northeast in the 1880s which proposed as a revolutionary advance which would fully exploit the advantages of a much larger scale of production than that of the traditional engenhos went bankrupt one after the other due to bad mistakes in relation to both investment and management decisions.

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[8] See Graham (1968), p.327.

[9] Rippy (1959), ch. XIII.

2. Stagnation and boom: 1889-1914

After stagnation until the mid of the first decade of the century British foreign investment, in spite of growing very rapidly until 1914, faced the stiff competition of capital exports from other European sources and to a lesser extent of American firms. By 1914 non-British direct investment was very substantial. Rough estimates suggest the European capital stock may have been as high as 110 million pounds contrasted to 30 million in 1905. American investment was of more than 10 million pounds.

Stagnation of British investment until 1905 was partly a result of the difficult decade faced by the economy from 1895 but also reflected a contraction of capital supply. The early Republican period was marked by a severe acceleration of inflation, partly related to loose monetary policies, partly to the foreign exchange crisis which followed the Baring crisis as the inflow of foreign capital was interrupted. The foreign exchange rate fell dramatically from around 27 pence per mil réis in 1889 to 10 pence in 1893-4 and to almost 7 pence in 1896-7.

Abrupt exchange devaluation strongly affected suppliers of public services led to the widespread introduction of a sliding scale which at least partly indexed many public service tariffs to oscillations in the exchange rate. This had the inconvenient of treating in the same manner both exporters -- who had been benefited by the exchange devaluation -- and other economic agents whose incomes were laggard to adjust [10].

Whereas in the initial years of the 1890s coffee prices were sustained, the inducement to increased output capacity ended up by affecting prices from the mid-1890s and fostered unanimity concerning the desirability of the adoption of an adjustment programme in 1898. Coffee growers were willing to make sacrifices in the immediate future in exchange for stability in the long-run. An adjustment programme was adopted in exchange for a foreign debt renegotiation which entailed funding of interest payments for 3 years and postponement of principal repayments for 13 years. Taxes were increased and targets of monetary contraction were established as condition to be fulfilled to assure interest payments refinancing. There was close collaboration of the London and River Plate Bank whose manager in Paris was the representative of the creditors in the negotiations.

The sharp recession provoked by the stringent monetary policy was followed by a severe banking crisis in which the largest Brazilian commercial bank, the Bank of the Republic, went bankrupt partly as a result of its attempt to follow the speculative lead of the London and River Plate Bank which tried to foster the appreciation of the mil réis and was countered by the other foreign banks which feared a flight of their deposits [11].

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[10] See Duncan (1932), pp.153-5.

[11] See Fritsch (1980), p. 265 and Joslin (1963), p.145.

Renewed capital inflows at first compensatory then voluntary led to a recovery of the foreign exchange rate which reached 12 pence per mil réis in 1903 and more than 15 pence in 1905.

The beginning of the recovery was marked by the successful conversion of all remaining railway guarantees into 4% rescission bonds through the purchase of companies by the Federal Government which were partly rented back to private operators. The Great Western of Brazil Railway rented some lines in the Northeast and after the Sorocabana Railway went bankrupt it was rented then controlled by the Brazil Railway Company, the major basis of operation of American adventurer-entrepreneur Percival Farquhar, which went bankrupt itself in 1914 [12].

As the exchange rate recovered and coffee output was expected to increase substantially coffee growers became interested after 1905 in coffee valorization, that is in price stabilization at an adequate level by means of supply control through stock acumulation. But high coffee prices implied exchange appreciation and fall in profits expressed in mil réis. The occasion was ripe in the international finnancial markets to stabilize the exchange rate by adopting the gold standard and to assure funding for coffee valorization.

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[12] See Duncan (1932), passim.

After initial difficulties in 1907 a period of booming econonomic activities lasted until 1913. This is reflected in the data on the inflow of foreign capital; British investment rose by more than 94 million pounds more than trebling since 1905. In spite of this with the exception of 1913 Brazil continued to be a net exporter of resources as the trade balance continued to be significantly positive.

One of the striking features of British investment was already noted: the relatively modest increase in direct investment (less than 2-fold) if compared to the increase in holdings of private securities (more than 7-fold). A significant proportion of such holdings referred to securities of companies registered in Canada, prominent among them those of the Brazilian Traction, Light and Power Co. Ltd. which was to remain until the late 1970s the main foreign operator of public utility concerns in Brazil. This certainly contributed to British relative aloofness concerning its Brazilian stake as declining trends became visible.

Another feature which was to weaken the British position in the long-run was the concentration of investment in the provision of traditional public services in sharp contrast with the sectoral distribution of emerging US investment which was concentrated in distribution, manufacturing and public utilities other than railways.

The British position remained strong in the provision of financial services. British banks operating in Brazil -- the London and Brazilian Bank, the British Bank of South America (formerly English Bank of Rio) and the London and River Plate Bank continued to play an important role but had to face the increasing competition of European banks. British insurance companies faced similar conditions but still had 25% of the Brazilian market in 1910 [13].

The important role played by British exporting houses was undermined by the decresing importance of Britain as a market for Brazilian commodities and more particularly by British unwillingness to drink Brazilian coffee. British firms which controlled perhaps one third of Brazilian exports of coffee early in the century participated in the elimination of comissários as major intermediaries in the industry but were in a very bad position to hold their share given the market structure. Involvement in the coffee trade implied in certain cases the ownership of coffee plantations as these passed to the hands of creditors as a result of bankruptcy of their owners [14] .

The record concerning direct investment in industry was dnot impressive: relatively minor involvement in the production of shoes, matches and textiles (including threads); a very successful

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[13] Graham (1968), p.91.
[14] See Greenhill (n.d.), passim.

experience in wheat flour production. Ordinary dividends distributed by the Rio de Janeiro Flour Mills and Granaries were 10.9% on average between 1893 and 1902 then rose to 19.8% in the next 10 years [15]. The production of matches was undertaken by two factories in Niteroi and São Paulo controlled by Bryant and May: its Brazilian arm, Cia. Fiat Lux, was to become the major match producer in Brazil.

It is possible to detect during this period the beginning of a change in the attitude of representative political groups concerning the role and contribution of direct foreign investment to Brazilian long-term economic development. Criticism of the long-term effects of government borrowing had of course a much longer history given the scandalous features of the flotation of certain Imperial loans in the London market. Nationalist criticisms of direct investment, however, were rare before the turn of the century. The monopoly position of the San Paolo Railway raised criticisms but most probably the activities of Percival Farquhar were crucial to increase the weight of such arguments.

Farquhar, an American adventurer-entrepreneur, through a most intricate series of financial _coups de main_ gained control between 1904 and 1913 for its Brazil Railway holding group of the

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[15] See Rippy (1959), p.157.

systems of transport in the Amazon region (harbour of Belém, shipping and Madeira-Mamoré Railway) and in the Southern region (harbours of Rio, Paranaguá and Rio Grande; the Paulista, the Sorocabana, the Mogyana and the the São Paulo-Rio Grande railways) as well as farms, slaughterhouses and other minor investmnets. The origin of the group's capital but there is no doubt that it relied importantly in the London market. His bucaneering activities raised sharp criticisms possibly not always uninterested as Brazilian entrepreneurs had been squeezed by his hectic activities.

The clearly crucial role of the Canadian Brazilian Traction in the supply of public services and especially of electricity, of which it had the monopoly of distribution both in Rio de Janeiro and São Paulo, also raised criticisms and helped to consolidate the "Canadian octopus" image in the popular mind.

It is important ot understand that Brazilian agricultural oligarchy was not commited to "economic liberalism" in the same degree as were agricultural exporters in other commodity exporting countries such as Argentina as made clear by its initiative of mobilizing government support to interfere with market forces in the coffee market. This made agricultural resistance to high tariff protection very difficult and contributed to cement the de facto alliance between export agriculture and import substituting industry already sketched by the investment diversification strategy of many coffee growers. Erosion of liberal principles may have easied the strenghtening of nationalist criticism of the role of foreign investment.

3. Signs of decline: 1914-1930

As is well known the First World War marked the beginning of a period of serious difficulties for Britain. The liquidation of foreign assets during the war, war debt and the competitive difficulties of British industry made impossible the continued role of Britain as the most important source of capital for nations such as Brazil. This was aggravated by the return of sterling to pre-war parity. London continued to play an important role as a source of government finance in spite of moral suasion; this was particularly important in the case of the funding of coffee valorization in the second half of the 1920s as American finance could not be raised due to anti-trust legislation. Governemt dollar loans were, of course,significantly more important than sterling loans. The stock of British capital related to direct investment and holding of private securities started to contract during the period while the US stock increased more than 4-fold.

This trend was of course related to the main features of the 1914 investment position which have already been noted: its concentration of portfolio holdings and direct investment in railways and public utilities. Significant mil réis devaluation from 16 pence in 1913 to 12 during the war then to a low of 4 in the early 1920s provoked a sharp fall in the profitability of railways and public utilities underlying the vulnerability of their position if compared to investment in other sectors which did not depend on tariff negotiation.

The report of the influential Montagu is a good indication of the British somewhat old-fashioned priorities on the conditions of operation of foreign investment in Brazil based, of course, on the analysis of difficulties faced by British firms operating in the provision of public services [16]. The main suggestion of the report was the establishment of a tribunal to deal with the establishment of railway tariffs, not surprisingly with a heavy British membership in the board of experts. There were discussions on the disposal of the Central Railway -- to be purchased by the San Paolo Railway -- and of Lloyd Brasileiro [17]. Typically the report put heavy emphasis on blocking proposed federal government involvement in the establishment of a steel industry in Minas Gerais.

This last subject was to dominate the discussions on the role of foreign direct investment in the 1920s. Farquhar made a modest comeback to the Brazilian scene by associating himself with

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[16] See Montagu (1924).
[17] See Fritsch (1980A).

the British interests of the Itabira Iron which controlled a sizeable portion of the rich iron ore deposits in Itabira do Mato Dentro and the unfinished Vitória a Minas Railway. Farquhar tried to put together an ambitious project to export iron ore but met with the opposition of a powerful nationalist lobby led by Arthur Bernardes, first President of the State of Minas Gerais, then President of Brazil 1922-26 [16]. When the project was approved after many wrangles by the Brazilian Federal Government it was definetely sunk by the impossibility to raise fresh capital in the international financial market after mid-1928.

British capital was still singularly absent from industry in spite of limited diversification since 1914 which involved investment in meathouses such as Anglo and the first investments of British American Tobacco Co. which was to became the largest British firm in operation in the Brazilian market. British banks in line with owhat happened with other foreign banks steadily lost position of preeminence in Brazil. In 1923 Lloyds Bank took over the London and River Plate which had already aborbed the London and Brazilian Bank and changed its name to Bank of London and South America. Amalgamation was completed in 1936 when BOLSA took over the Anglo-South American Bank which had acquired the British Bank of South America in 1920.

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[16] See for a summary of the opposing contemporary views Oliveira (1924).

4. Divestment as a policy: 1930-1952

The impact of the depression on foreign investment was very significant as not only it directly affected profitability due to the fall of economic activity but the consequent massive balance of payments crisis resulted in the imposition of foreign exchange controls which affected profit and interest remittances. Whereas the impact of the fall in export prices and of the interruption of foreign capital inflows was partially accommodated by exchange depreciation there were limits to such a process given its impact on government finances and the weakening of coffee prices since Brazil was the major supplier of the world market.

The government consequently introduced foreign exchange controls and a single "official" foreign exchange rate. Since the foreign exchange rate was overvalued the Bank of Brazil acting in name of the government had to introduce criteria to distribute foreign exchange for which there was excessive demand. Profit remittances occupied a relatively low place in the list of priorities after official and foreign debt payments, imports thought to be essential and small private remittances. In spite of such arrangements exchange arrears accummulated affecting both the settlement of commercial debts and profit remittances [19].

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[19] While the Brazil-US agreements concerning the thawing of such arrears in 1933 and 1939 included profit remittances it does not seem that this was the case in the similar 1935 Brazil-UK agreement.

After 1934 when the more critical period had passed Bank of Brazil's foreign exchange monopoly was replaced by a dual exchange rate system which reserved part of the export proceeds for government use (of course at a more advantageous rate) while all other purchasers had to use what was improperly called the "free" rate which was also pegged by the government. The "free" mil réis rate was about 40% higher then the "official" rate. During the Second World War when a similar system was reintroduced after a return to full intervention in 1938-39 the margin was reduced to 20%.

With the deterioration of the balance of payments there was a change of attitude concerning the role of foreign capital in the sense that it became relatively more important to gauge the net balance of payments contribution of foreign firms. This affected less favourably British investment given the importance of holdings of securities and as the bulk of British firms had clearly no intention of increasing their involvement in Brazil and had as basic objetive to maximize remittances. With the increasing strenght of extreme left- and right-wing groups in the mid-1930s the political denounciation of the political and economic costs entailed by foreign investment became common but as a rule rather incompetent [20] .

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[20] For an extreme integralista view see Carvalho (1937), passim.

During the first half of the 1930s it is difficult to detect a clear Brazilian government policy related to private foreign investment in spite of the many problems faced by foreign companies trying to remit profits and interest abroad, especially before 1934. As declaration of intentions the 1934 Constitution as well as the new Mining and Water Codes included quite radical provisions concerning foreign investment: concessions related to mining and water power were to be limited to Brazilian citizens , and foreign banks and insurance companies were to be progressively nationalized. The 1937 Constitution included such provisions in a still more radical form and it was proposed that mining and "essential" industries should be nationalized. Nationalist legislation regulating the proportion of Brazilian citizens employed by each firm was introduced as well as on the ownership and operation of Brazilian shipping companies. A de facto state monopoly in the exploration and refining of oil was introduced and reinsurance with a new Brazilian agency became compulsory.

But no nationalization action was undertaken and legislation mitigating the more radical features of the 1937 Constitution concerning foreign involvement in banking and insurance ativities was introduced [21]. In spite of this, the share

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[21] American and Canadian banks as well as BOLSA were all exempted from legislation enforcing the nationalization of foreign banks by specific decrees between 1941 and 1943.

of foreign banks in total banking sector assets which had decreased from 25.4% in 1929 to 17.8% in 1939 fell in 1945 to 5.2%. The relative importance of foreign insurance companies was also reduced especially in the case of reinsurance business which had been nationalized just before the war. The end of Vargas's period marked the beginning of an American offensive -- backed by the State Department -- to end the Brazilian policy which forbade foreign involvement in the prospection and exploration of oil resources [22]. This campaign would not cease until Petrobrás, a government owned concern with vested monopolies in oil prospection and exploitation was created in the early 1950s.

This new legislation faced no important internal opposition from the more conservative circles but there was an outcry on the alleged excessive nationalism of the legislation concerning mining and water power as it was argued that there was a domestic capital availability constraint which would hinder the development of such resources [23].

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[22] Berle, the American Ambassador, recognized the difficulties involved in opening the country to American oil companies: "of course if the Brazilians wanted oil fast they could simply open the country to exploitation by the private companies. But that does something else besides getting oil -- and the something else is not too nice ...", Berle and Jacob (1973), p. 531.

[23] See Amaral (1938), pp.240 and ff. and Lobato to Vargas, n.d. in Silva (1969)

While it is almost impossible to evaluate the impact of such legislation on actual aggregate flows of aggregate foreign investment it is unlikely to have had any significant impact on the decision of the representative British investor who as a rule wanted to get out of Brazil as soon as possible provided certain minimum conditions were met. This attitude which was the outcome of a long period of declining profitability and worsening relations with the government was to find a perfect match when use has to be found for the Brazilian sterling reserves accumulated in 1941-47 and could not be used to purchase goods.

Britain during Second World II was able to draw important financial contributions to her war effort from other countries. In addition to current exports and the sale of assets abroad, sizeable debts were accumulated to finance British current payments. Part of those debts were related to the Lend Lease and gifts from Commonwealth countries but an important part took the form of increased sterling holdings. In addition to members of the sterling area other countries were "persuaded" to hold increasing amounts of unconvertible sterling as the war went on [24].

One of the important early uses of these balances was the settlement of claims related to British-held assets which had been taken over. British policy early in the war was to avoid those

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[24] Sayers (1956), pp. 15-19, chapters VIII, IX and XIV.

claims which involved wider issues like the Brazil Railways and concentrate on well defined cases like the nationalization of the Southern San Paolo Railway, Sorocabana Railway and Brazilian Land and Cattle [25].

After 1947 reduction of sterling balances depended essentially on payments related to the take over of British investments in public utilities and railways (see Table 5). These were, with some exceptions of which the more important was the São Paulo Railway, rather rundown concerns which had faced for quite a long time difficulties on the readjustment of their rates and so did not maintain their profitability in sterling, adapting to this situation by cutting down their investment to the bone. The consequence was a sharp deterioration in the quality of services provided and further aggravation of the difficulties between the companies and the government. Whereas the British quite lamented to have to part with the São Paulo Railway - in the words of Niemeyer "much our best asset in Brazil ... and far from dead"[26] - there was much rejoicing in London with the agreed prices in the case of the Leopoldina Railway and the Great Western as the offers were very advantageous to the companies[27].

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[25] Tel. P117, Phillimore to BOE, 19.11.41 and Mather Jackson to Nosworthy, 4.12.41, PRO: FO371/A9523/110/6; Treasury meeting, 24.11.41, PRO: FO371/A18535/01/1.

[26] Niemeyer to Rowe-Dutton, 21.8.45, PRO:T236/596.

[27] Appendix B to minute to Minister of State for Economic Affairs (Brazil Trade Negotiations), 1950, PRO:AB1151/262.

Table 5

Variation of Outstanding Sterling Balances, Millions of Pounds, 1947-1952

Quarter		Source of variation*
1947.2	- 8.0	First general release (1.5 million) San Paolo Rwy electrification (2.0) Bank of Brazil commercial credits (0.7) Sterling foreign debt payments (0.8)
1947.3	- 2.0	
1947.4	- 3.9	
1948.1	- 3.3	Purchase Empresa de Armazéns Frigoríficos, Cia. Indústria Brasileiras de Papel and Southern Brazil Lumber and Colonization Co. (2.0)
1948.2	- 1.2	
1948.3	-10.4	Second general release (1.5) San Paolo Rwy purchase (7.6)
1948.4	- 0.6	
1949.1	- 1.7	Coffee loan redemption (1.4)
1949.2	- 6.3	Third general release (1.5) Special releases (3.5)
1949.3	+ 0.5	Ex gratia payment ?
1949.4	+ 9.8	Payment due to sterling devaluation
1950.1	0.0	
1950.2	-19.6	Sterling debt redemption
1950.3	- 4.2	
1950.4	- 0.9	
1951.1	0.0	
1951.2	- 0.1	
1951.3	0.0	
1951.4	-10.3	Leopoldina Railway
1952.1	- 3.2	
1952.2	- 0.1	
1952.3	- 0.5	
1952.4	- 0.1	

Source: Bank of England and PRO: FO 371.
*The following uses cannot be dated precisely: purchase of Great Western Rwy (3.7 million pounds), purchase of State of Bahia Rwy (0.6), Brazilian Embassy building in London (0.3), additional Leopoldina payments (2.3), additional San Paolo Rwy payments (1.0) and sterling debt redemption (10.6). This leaves 6.5 million pounds unaccounted for.

British willingness to divest had an important if somewhat unexpected consequence in the minng sector. In the context of Brazil-US-UK supply negotiations the British government agreed in 1942 to transfer to the Brazilian government at no cost the former rights of the Itabira Iron Ore Co. in return for a Brazilian commitment concerning the supply of high-grade ore. Helped by US Eximbank loans the mining and transportation facilities were developed by Cia. Vale do Rio Doce one of the major and most efficient Brazilian government-owned companies, a market leader in the iron ore business.

Very little can be listed to compensate divestment in railways and public utilities. Established firms such as BAT and Shell did well but only a few cases can be found of new direct investment. A good example of the extreme reluctance of British business to enter the Brazilian market is the judgement of the head of ICI in Brazil in 1934: "[as] importations are looked upon as a drain on the national economy... I consider it ,therefore , expedient that we establish a small vested interest in Brazil, so as to create the impression in official quarters that we are interested in the country's industrial development" [26]. The deception was taken seriously as ICI was the most active of the British big firms in Brazil in the 1930s purchasing a cartridge

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[26] See Reader (1975), p.226.

factory jointly with Remington Small Arms and establishing with Dupont a chemical concern.

The other major British firm to enter Brazil was Unilever whose interest began with the acquisition of Atkinson´s and the establishment of a factory in 1930 to produce standard Lever products. It lost money until the late 1930s but became profitable and was leading the soap market in 1939 [29].

5. Remnants of the past: the post-1950 period

Today in Brazil British investment has a rather minor role: only Shell, Souza Cruz (BAT) and Gessy Lever are in the group of the 40 largest foreign firms [30]. Yet the history of decline is striking for its predictability. Once it is clear that British investment was heavily concentrated in railways and public utilities and that a relevant share of it was not direct investment in its normal meaning but consisted of holdings of foreign corporate securities, the trend of decline is firmly established and uncertainty concentrates on the timing of decline.

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[29] Wilson (1968), pp.258-60 and Wilson (1954), p.360. In 1960 Lever merged with Gessy, its main domestic competitor

[30] In 1st, 5th and 31st places in terms of net assets. Lloyds Bank is the 20th private commercial bank in terms of deposits. Gazeta Mercantil.Balanço Anual 1987

Private provision of public services is particularly vulnerable to foreign exchange fluctuations, acceleration of inflation and political frictions with regulatory bodies on acceptable minimum rates of return. Moreover, railways generally faced after 1930 a mounting pressure from competitive road transportation which was to prevail in the long run as railways stagnated.

Had not the sterling blocked balances been available in the 1940s there is little doubt that Anglo-Brazilian relations would be dominated by perpetual wrangles concerning the profitability, access to foreign exchange and quality of services provided by British railways and public services.

The actual timing of British divestment in Brazil was the joint result of the fragility of the investment position due to its concentration in low profitability sectors, of the very limited involvement after 1930 of the big competitive British firms in the Brazilian market and of the availability of balances which made possible the outright purchase of such assets.

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