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Office Memorandum • UNITED STATES GOVERNMENT

TO : St/PR
THRU : Chief, D/S
Chief, S/TF
FROM : 

DATE: 29 June 1955

STATINTL

SUBJECT: Certification of Classification of ORR 42.769

It is certified that the proper classification of the subject project should be Confidential, CIA Internal Use Only.

STATINTL 

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CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

29 June 1955
(Date)

MEMORANDUM FOR: Chief, Economic Research
ATTENTION: Chief, Planning and Review Staff
SUBJECT: Transmission of Draft Report, Ch/E Project No. 42.769

Title: Some Notes on the Development of Companhia Siderurgica
Nacional (Brazilian National Steel Company.)

Author: [REDACTED] 25X1A

ENCLOSURE: Subject draft report (original and two copies)

1. Enclosure is forwarded herewith for review and publication. Recommended Category: ☐ IM ☐ RR ☐ TR ☐ RA ☒ XXXX Other: _____
2. Statement of coordination attached, with initials of individuals and their units.
None needed
3. Arrangements for maps and/or graphics through St/PB with Cartographic Division. 25X1A
None needed
4. Recommended Dissemination: ☐ Standard ☒ XXXX Requester ☐ NCP/CR
☐ EIC Subcommittee ☐ Other, foreign, etc. (attach list)
5. Has information on US military end products or manpower been used? Explain. No
Orig. and two typed copies to [REDACTED]
6. Has direct use been made of the intelligence or information of another agency? No
7. Have all sources been considered in the preparation of this report? No. Not required
8. Man-hours utilized by this division in producing this report: 20
Branches of other ORR Divisions contributing to this report, and (if available)
man-hours utilized by each: _____, _____, _____
9. Estimate Cards: ☐ Have been submitted to Central Economic Estimates File.
☐ Are attached.
Not required
10. The analyst responsible for consultation is:
[REDACTED] S/TF 3098
(Name) (Branch) (Extension)

11. Gaps in Intelligence procedures of the Analysts' Manual Notice (check one)
a. Intelligence information gaps disclosed in this project are covered specifically in existing collection requirements. ☐
b. These intelligence information gaps disclosed in this study which were not previously filed as requirements have been transmitted to St/I/E in the form of a requirements memorandum a copy of which is attached. ☐
c. Notice is inapplicable to this project. ☒ XXXX

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12. Comments:
Prepared in answer to specific DDP/PP request

[REDACTED]

Chief, Services Division

* The classification of this transmittal sheet will be changed to conform to the classification of the draft report which it covers.

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ORR 12.762
NOTE NOTES ON THE DEVELOPMENT OF
COMPANHIA SIDERURGICA NACIONAL*
(BRAZILIAN NATIONAL STEEL COMPANY)

29 June 55

INTRODUCTION

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The following is a group of notes resulting from [REDACTED]

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The notes discuss the economic role and future capabilities of the Companhia Siderurgica Nacional, Volta Redonda, Brazil.

SUMMARY

The US backed investments in CSN bears all the earmarks of a strong, self-liquidating loan. From a business standpoint the [REDACTED] conclusion that the loans are prime risks is well merited, and must be accepted. From the standpoint of benefit to the Brazilian economy the loans have been equally propitious: (1) They are economically justified. Steel can be domestically produced and sold more cheaply than it can be imported. While this has been especially true in the postwar years, it might possibly not hold if the cruzeiro were to gain strength in relation to currencies of steel exporting countries. However this event does not appear likely in the foreseeable future. (2) The Brazilian economy has undoubtedly benefited and will continue to benefit from the availability of domestic steel during periods of hard currency

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* Hereafter referred to as CSN

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and steel scarcity. (3) The dispersed steel capacity represented by the Volta Redonda plant is of real strategic value to the free world. (4) CSN is a source of intense national pride. Partly as a consequence of this it has benefited from excellent management and has been relatively free of politics. (5) The development of steel, through training of labor and management and the development of suppliers and primary and secondary consumers, has undoubtedly contributed to the development of Brazilian industry as a whole.

In summary the aid given Brazil in developing CSN appears to have been economically justified. Its administration has been excellent and relatively free of politics. It could well serve as a model for future aid to underdeveloped countries.

Brazilian Need for Steel

25X1C [REDACTED] there was a continuing and increasingly large unsatisfied demand for steel in Brazil. This observation was substantiated by [REDACTED] a number of apparently reliable sources. [REDACTED] despite a large growth of steel production, increasing Brazilian demand would be such that production must increase much further unless imports were to be increased. One source forecasted rolled steel consumption would reach 1.7 million metric tons in 1955 and 1.9 million metric tons in 1960 so that steel production would have to increase from 2.3 to 2.58 million metric tons to meet this demand. Planned steel expansion as of late last year was about 2.1 million tons for 1960. The gap between expected demand and planned capacity in 1960 would have to be met by imports. This would adversely affect Brazil's balance of payments.

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since

its inception, operated with extremely low inventories. This has resulted from high demand for its production from domestic sources, as well as from Argentina, Chile and other countries.

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Opinions as to Plant Efficiency

Published sources, including Brazilian and domestic periodicals

did not give a great deal of attention to plant efficiency.

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pointed out that CSN could not pretend to be low cost in the sense of most effective use of input factors. Because labor is untrained and because the mill was built in a period of high costs, it is unquestionably true that labor and machinery is not used as efficiently at the Volta Redonda Plant as in similar plants in Western Europe and the United States. However, published sources made the point that labor efficiency was

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constantly increasing and

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had confirmed that productivity at the plant was correspondingly increasing. there were a number of technical schools being built and run in the area and that housing and various other facilities were also being improved, all contributing

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to worker welfare and contentment.

Although productivity at the Brazilian plant is not so high as in similar plants in the United States, this does not mean that the investment or enlargement of capacity projected at CSN is uneconomic.

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In fact, the domestic cost of imported steel, [REDACTED] is so high as to make domestically produced steel prices quite competitive. This is to say that while the Volta Redonda operation is an internally economic one, it is not necessarily an internationally competitive one.

Concerning the future of the company, [REDACTED]

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[REDACTED] the management at the plant is extremely capable and [REDACTED] expected the management to be strong in the future. [REDACTED] some U.S. steel companies do not have as good management.

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[REDACTED] the management of CSN had been of

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[REDACTED] relatively long tenure and had always been of high quality. [REDACTED]

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[REDACTED] the steel plant definitely was not a political football but rather was held in extremely high esteem throughout the government.

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[REDACTED] there was little or no government interference in its management even though chief officers were government appointees and frequently held military rank. [REDACTED]

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[REDACTED] the steel mill officers had been given a relatively free hand in conducting operations. [REDACTED]

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[REDACTED]

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Exchange Difficulties

It is well known that since World War II and before, Brazil has experienced severe exchange difficulties. CSN, because of its large purchases of plant and equipment, coal, services, and other supplies in the United States has been especially concerned with the hard currency shortage. CSN is, however, in an enviable position since it pays an official rate for dollars. That is in a sense it gets a subsidy on the rate of exchange on its capital expenditures, debt services, coal, and similar purchases. Partly as a consequence of this favored position CSN has never failed to meet its debt service or amortization payments.

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[REDACTED] CSN pays

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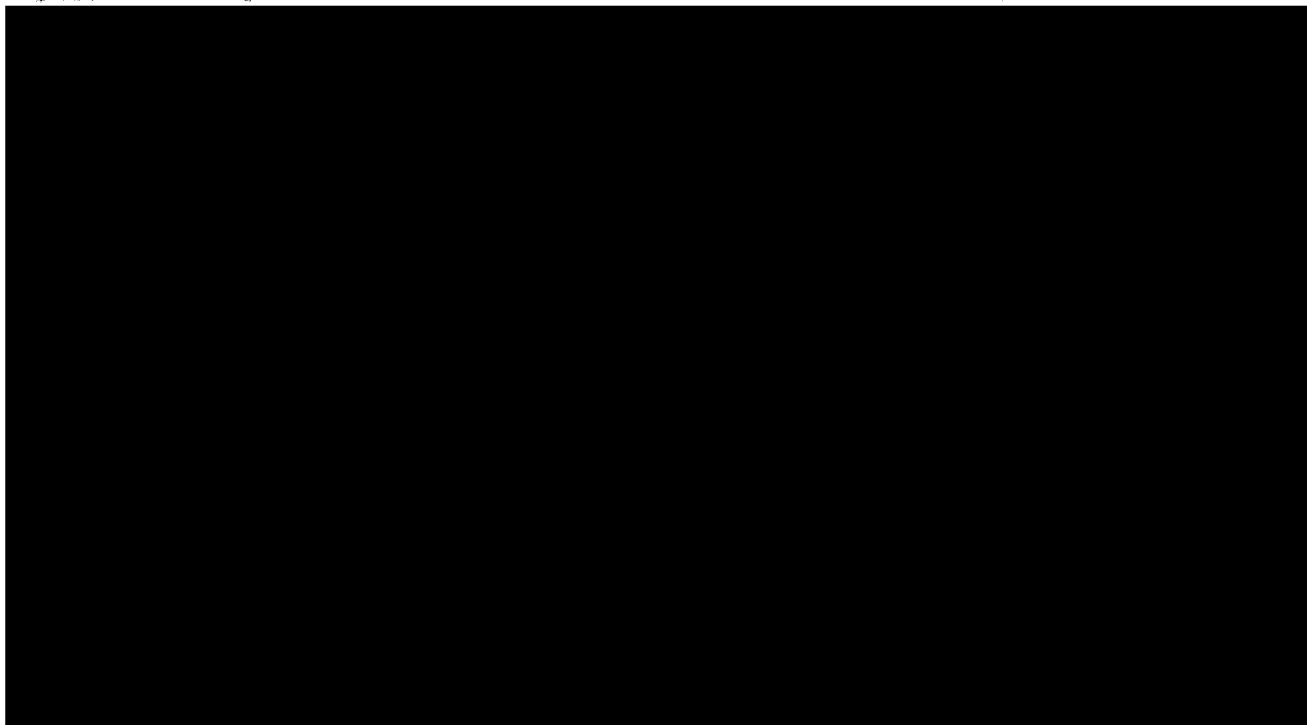
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about 18 to 20 cruzeiros plus a small premium per dollar, while the free market rate is in the neighborhood of 75 or 80 cruzeiros and the auction rate is about 200 cruzeiros per dollar.

It is very important to remember that if Brazil were to have to purchase her steel abroad in hard currency or relatively hard currency areas her exchange difficulties would be greatly multiplied. Thus the development, maintenance and growth of a domestic steel industry is extremely important in Brazil's national economy. Procurement of steel is to Brazil not a question of the relative price of imported versus domestic steel but rather a question of availability of hard currency to purchase steel from abroad at all. In addition there is, of course, the political and military importance of developing a domestic steel industry.

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[REDACTED]

The Bank presently carries a line of credit of \$US 3 million under their own responsibility and substantially more under Export-Import Bank guarantees.

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[REDACTED] CSN

buys on usual domestic open account except when purchasing special purpose machinery, a sign of uncommonly good financial strength for a foreign company. CSN is presently carrying out an expansion program to raise capacity a million tons. There is no question

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[REDACTED]

the expansion is an economic one, both self-liquidating and in the best interests of the Brazil economy.

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[REDACTED] confidence

in CSN is shared by all New York, London, and South American financial institutions contacted. There is no doubt but that CSN is a prime risk or in one officer's words "no risk at all."

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2. Annual reports of CSN are available directly from the company.

[REDACTED] these would have to be processed in order to be of maximum use.

3. Certain issues of CSN capital stock are privately held. It is likely that any of several New York brokers specializing in South American securities could supply information as to future prospects of the company and its importance to the domestic economy if a request were made to evaluate the investment potentialities of this stock.

4. Several American companies have supplied consulting services to CSN. Background material is undoubtedly available in their files. These companies include:

a. The United States Steel Company, which has supplied a number of miscellaneous services.

b. McKee and Company, Cleveland, Ohio, which has supplied

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services on steel mill construction.

c. Koppers Company, which has also supplied a variety of services.

5. A number of published reports have come to ~~my~~^{our} attention, including:

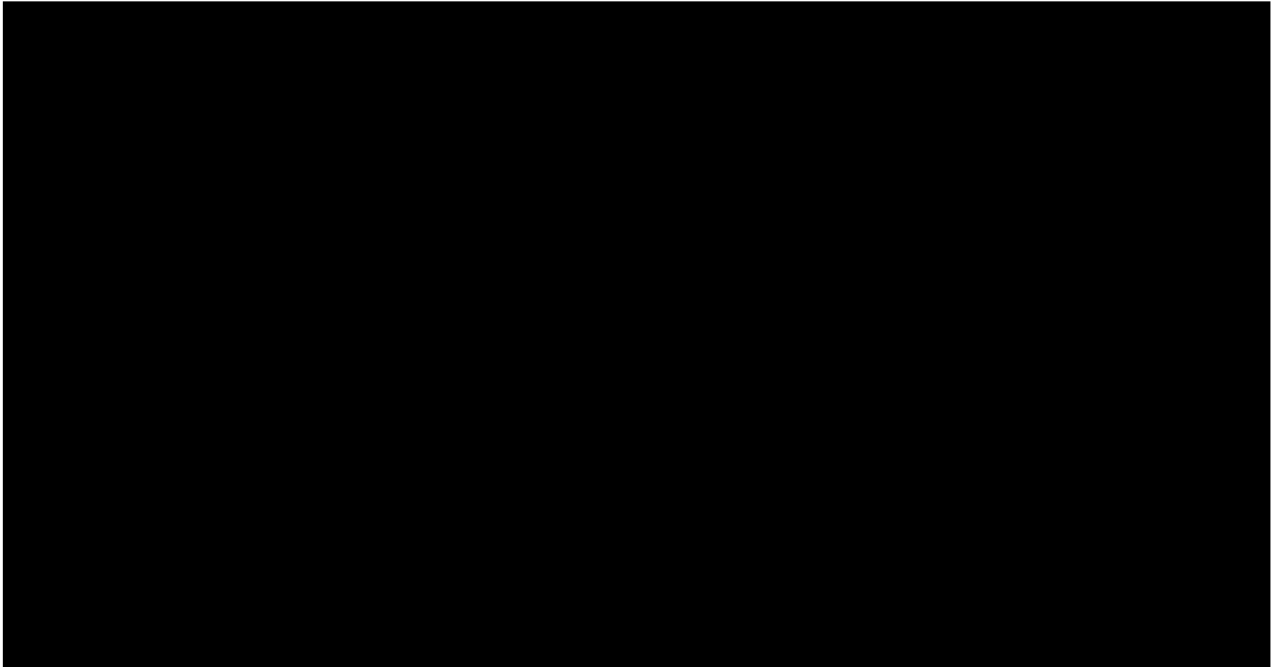
a. Noticias, National Foreign Trade Council Incorporated,
Vol. No. 33, 17 August 1954.

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b. International Financial News Survey, 1 August 1954.

c. Brazilian Trade News, 31 August 1950.

d. Brazilian Trade News, 1 September 1952.



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