The Poisoned Chalice: Oil and Macroeconomics in Brazil (1967-2003)

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ABSTRACT

This dissertation analyzes the development of the Brazilian oil industry and its impact on the economic development of Brazil from the beginning of the “Brazilian Miracle” (1968-1973) to the end of the Fernando Henrique Cardoso’s second term as president (1995-2002). The dissertation explores the closely intertwined nature of Brazil’s oil industry and its macroeconomic development, shedding new light on the history of Petrobras (the Brazilian state oil company), and on other key topics of Brazilian economic history, including the Debt Crisis of the 1980s and the role of neoliberalism in Brazil. The argument is that oil policy shaped the national economy and the Brazilian state in this period. Attention to the oil industry, and to Petrobras in particular, was crucial to the establishment of diplomatic and economic policy, and to conflict within the Brazilian state. Finally, this dissertation seeks to illuminate Brazil’s place in the global oil industry and how that has shaped Brazil’s global economic standing.
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Introduction- The sinner’s saint

Very often Brazilians like to repeat the famous adage, “God is Brazilian”. When we think about the diversity of its people and the expanse of its territory, we may well be convinced. But when the topic changes to oil and economics, God acts in more mysterious ways. Over its 500 years of existence, Brazil has faced short steep booms often followed by long and deep busts. The same trope is still in motion in the first two decades of the 21st century. A short boom caused by China’s thirst for commodities and the Quantitative Easing (QE) by the American Federal Reserve in 2009 was followed by a huge bust in 2015 that resulted from economic mismanagement and the end of the commodity boom. Since the beginning, Brazilian oil markets have followed the upward and downward trends presented by the country’s macroeconomic scenario.

From its foundation in 1953, Petrobras has become the embodiment of the successes and failures faced by the Brazilian economy over the last sixty years. That is why any academic work that addresses the history of oil in Brazil cannot dissociate the commodity from the broader macroeconomic environment: both act and thrive as a single organism. Any study that centers its analysis on the political economy of the Brazilian oil industry is presented with a great opportunity as the synergy between oil and economics provide the chance to analyze the roots of those booms and busts from a different perspective.

Since effective allocation of energy resources is a pivotal tool for any political model, bar anarchism, the analysis of the Brazilian oil industry provides the opportunity to comprehend some of the structural flaws that have caused Brazil’s booms and busts. The main goal of this dissertation is not simply to write a history of Petrobras, for that alone would not accomplish too much, but instead to offer a narrative about how this organism, oil and economics, worked in synergy to create either prosperity or misery.

Given the fact that Petrobras managed to provide Brazil with oil self-sufficiency, it may sound strange why the company could be considered a poisoned chalice. From the time of its inception until the
recent *Lava Jato* scandal, Petrobras technical prowess has been stained by corruption and waste, like other sectors of Brazilian state. From the heavy foreign borrowing to develop the company in the 1970s, to the administrative problems caused by this very same borrowing during the 1980s and the political scandals of the 1990s and 2000s, Petrobras woes have had a steep price to the average Brazilian. Higher fuel prices, inflation and the reinforcement of patronage networks at federal level that were the direct result of Petrobras actions, helped in the end to created one of the most unequal societies in the world.

It is understandable that from a pure technical perspective of the global oil industry it is hard to see Petrobras as a failed company, especially given its unique expertise in deep offshore drilling. But, at a time where the Brazilians have to pay higher fuel prices amidst a severe recession in order to cover for the corporate malpractices that happened once again at Petrobras, it seems clear that from the Brazilian people’s perspective the company is a poisoned chalice that has been served over and over again, reinforcing Brazilian economic and social woes in the process.

Most of what has been written so far about Petrobras in different fields of knowledge accomplish important gains into their own fields of expertise, but fail to provide a broader narrative. Oil has consequences that go far beyond Petrobras as a state company, it affects foreign policy, domestic prosperity, and scientific advancement. Also, the oil business can provide us with an interesting sight on degrees of efficiency in allocating resources within a certain geographical space. That is why a narrative that encompasses all these things within a historical framework is so important, and that is the main reason why this study came into being.

Filling that void in historiography may provide a powerful narrative that can at the same time can provide an understanding of Brazilian economic development in the 20th century and how the global oil industry affects macroeconomics in different countries. In order to accomplish that goal, it seemed more reasonable to focus on the second half of the 20th century, when oil really became an increasingly important commodity for Brazil. Few Brazilians are aware of how late oil arrived as a feature of their economic lives.
Brazil was a late comer to the industrialization wave that swept the Western Hemisphere and Japan in the 19th century. Despite some flimsy efforts by the emperor Pedro II to start oil exploration in Brazil during the 1870s, all his efforts fell flat. The country was still mainly a slave-based giant plantation, mainly focused on coffee. Industrialization was only an afterthought for the Brazilian elites, even considered to be anti-natural sometimes. Therefore, the exploration charts given to some British entrepreneurs did not bring any meaningful results.

The Republic, that started in 1889, was still jaded by coffee and its gains. Although, at this point, a small group within the Brazilian elites started to turn to basic industrial activities, especially in the state of Sao Paulo. The new Republic also conceded exploration charters to Brazilian and European entrepreneurs, with the same disappointing results. Public opinion and the elites thought at first that the task of finding oil in Brazil would be an easy one. Reality proved actually the opposite, no meaningful discovery had been made. By the 1910s, the Federal government engaged for the first time in oil exploration, mainly in the state of Sao Paulo. The exploration was conducted by the Ministry of Agriculture with little success, and it marked the beginning of the epochal fuss surrounding Brazilian oil, public opinion, and political elites.

The trade difficulties imposed by the First World War pushed Brazil towards an expansion of its infant industrial park. By the 1920s, a moderate expansion followed despite the resumption of regular trade with Europe and the United States. Brazilian elites also started to savor the first taste of having imported cars. It was within that context that Standard Oil and Royal Dutch Shell established their retail activities in Brazil. Brazilian politicians decided to settle for the role of importer, which Standard and Shell were more than willing to fulfill, domestic oil exploration became an afterthought once again.

The end of the Old Republic (1889-1930) saw the meteoric rise of Getulio Vargas from state caudillo to national leader. Vargas brought with himself the idea of a new Brazil, one that envisaged an industrial powerhouse in South America. Coming from the southern state of Rio Grande do Sul, the prowess of the Argentine economy certainly caught his attention. Brazil’s neighbors were able to combine a
strong commodities market attached to a booming industrialization and internal market. The combination of those two factors resulted into an extremely sophisticated oil industry, led by the national champion Yacimientos Petrolíferos Fiscales (YPF) and by foreign majors such as Anglo-Persian and Shell.

Vargas soon understood that access to oil was pivotal for Brazil’s economic future, and it was with that goal in mind that his administration founded the National Oil Council (CNP), in 1934. The Council for the first time was able to conduct an organized seismical and geological survey of the country. Also for the first time, major attempts to conduct onshore drilling and building small refineries, some of the initiatives carried out by the Council were mildly successful. The oil shortage brought by the Second World War served as an awakening call for the Brazilian government, a novel sense of urgency was born out of that.

 Brazilians, always firm believers in the God-given wealth of their soil, could not believe they had not been endowed with large oil reserves. The works of Monteiro Lobato, a famous writer and partisan of the Brazilian oil cause, are evidence of this sense of disbelief. Lobato and many others politicians, military officers, and members of civil society engaged in the cause of finding oil in Brazil. Given the record of imperialism and the monopoly of foreign oil companies at that time, a conspiracy organized by companies like Shell and Standard Oil seemed a plausible explanation for why Brazil did not find oil. Behind the huge social force generated by that belief, the Brazilian government created the National Oil Council (CNP) in 1934 and in Petrobras (1953) as the way to unmask that “conspiracy” before the Brazilian nation.

Despite all the high hopes and fervor during the O petroleo e nosso (The oil is ours) campaign that started during the late 1940s and culminated with the Law 2004 (1952) that granted the monopoly of oil exploration to Petrobrás, the company had no meaningful results to show fifteen years after its creation. When the American geologist Arthur Link became the chief of exploration for Petrobrás in 1955 and later presented the country with a pessimistic report about the possibilities of finding onshore oil in Brazil some influential people argued that the conspiracy had been internalized within Petrobrás. Nationalists
were outraged, but given the complex context of that time, it was impossible for them to recognize that Link was actually telling the truth.

Although Brazil seemed to have promising geological formations onshore that could potentially amount to sizable oil reserves, they failed to fulfill that promise. Link was deemed to be an envoy of American Imperialism and the same people that once supported Petrobras slowly started to turn against it, charging that it had incompetently proven unable to endow Brazil with oil for its development. Petrobras’ several opponents, who were as determined as its advocates, made the most of the company’s flawed quest for oil.

Petrobras’ critics were dubbed Entreguistas (sell-off people), who questioned the company’s existence by arguing that a country that was barely industrialized and was faced with a perennial shortage of capital could not properly develop a state company devoted to one of the most capital intensive and risky ventures in the world. And all that gigantic process was conducted by the Brazilian government, whose record of economic management in any activity was far from stellar. In fact, due to the intensity of the debate on oil, which was by its turn only a spillover of major debates about Brazil’s place in the Cold War or the nature of the economic development of the country, the complex reality was harder to evaluate.

Nationalists failed to understand that the Majors such as Shell and Standard Oil were not interested in investing in exploration in Brazilian soil; Oil in Argentina and Venezuela was more than enough to supply the whole continent with oil. Therefore, the nationalists were right in the sense that either Brazil created its own oil company or there would be in an eternal wait for the Majors’ good will. But the Entreguistas also had a fair share of reason, since the amount of capital demanded was huge for a country that was severely struggling with its balance of payments in the early 1950s. It was an endeavor plagued by so many potential pitfalls that even Getulio Vargas, considered by many as the “Pai do Petroleo” (Oil’s father) had serious second thought. Despite this climate of suspicion and the failure to make ma-
jor oil findings, Petrobras moved ahead and the company grew fast, by the early 1960s it already was the largest Brazilian company, a remarkable feat under the circumstances.

Juscelino Kubitscheck was not interested in Brazil’s lack of oil or shortage of capital. His business was development, and above all, optimism. In his disregard for the long-term consequences of his machinations, Kubitscheck put Brazil into a great conundrum. By developing a sophisticated market for consumer goods and in opting for car civilization with the help of foreign multinationals, Kubitscheck put Brazil on a economic course from which there was no way back. From now on, Brazil needed steady oil supplies in order to develop its economic model. Since most of this oil came from abroad, Brazil now depended on oil it did not have and that had to be bought with dollars did not have.

The economic conundrum created by Kubitscheck, which had capital and oil at its center, was only resolved in the late 1990s, when Brazil finally had most of the oil it needed and had the necessary dollar reserves to afford the rest. Right after his term, the economic maelstrom he created put the country into an even more unstable political ground, which culminated with the military coup of 1964. Then, it became the military’s responsibility to deal with the oil conundrum and at the same time stabilize the economy. It is important to emphasize that by 1967 Petrobras had monopoly over the entirety of the upstream cycle, and almost all downstream, except for retailing. The expansion of the initial monopoly mandate of 1953 to new areas of the oil industry, such as imports and refining, were seen as pivotal tools for Brazilian development.

That is where the story starts, with the military’s attempt to solve the oil conundrum and how it affected the other aspects of Brazilian economic development. With booming industrialization and an increasingly demanding middle class, an economy that by 1967 still ran on trucks and firewood posed an enormous challenge. If Brazil was to become a developed industrial economy, oil had to be at the center of the state’s energy policy, regardless of the consequences.

Despite the impressive drive towards industrialization made by Getulio Vargas and Jucelino Kubitscheck, still in the late 1960s firewood was the most important source of energy used in Brazil. Brazil
was only a small retail market in Latin America for companies such as Royal Dutch Shell and Standard Oil, especially when compared to its neighbor and rival Argentina, which already in the 1930s had the sixth largest car fleet on earth.¹ All the efforts made so far seemed to be in vein, at least for the conservative Brazilian political elites. The new military regime vowed to end that, the military were driven to make Petrobras an exemplar company and to provide Brazil with the badly needed oil for its development.

Given the broad scope of this dissertation, the variety of sources required to put this narrative together has been considerable. It was pivotal to cover long documental series on oil and macroeconomic trends in Brazil over more than three decades. Among the most important sources analyzed were the IMF and World Bank reports and data over the period, being among the most reliable and complete regarding the understanding of the overall economic trends in Brazil during that period. Other important economic sources are in Brazilian governmental institutions, such as SEST, IPEA and the Finance and Planning ministries.

Regarding the oil industry, a plethora of sources were needed in order to cover the needs of an extended timeline. The technical and annual reports from Petrobras from 1967 until 1993 represented a vital source to understand the inner workings of the company and how it developed over that period. Extensive documentation from the Brazilian Foreign Office (Itamaraty) has been used to understand how Brazil dealt with the Oil Shocks from the 1970s, but also to analyze the role of foreign oil deals in fostering Brazil’s economic development.

The oral history project conducted by the Getulio Vargas Foundation (CPDOC), where several important Petrobras executives gave their testimonies, was an important way of understanding the company’s inner workings from their own perspective. The National Energy Bulletin, published yearly by the

Brazilian government since 1976, has also been an important source of broad analysis on the Brazilian energy matrix. The Petrobras archives in the Fernando Henrique Cardoso Presidential Library also provided vital documentation in order to understand the oil scene in Brazil during the 1990s and the important reforms of the oil industry implemented by the Cardoso administration.

Finally, the analysis of several press publications represented a valuable tool for understanding the broader context of oil and economic issues. Because of its polemical contemporary role in Brazilian politics, it has been easy to forget how the investigative journalism of Veja magazine was a significant force. Its pioneering efforts were evident in its coverage of the oil industry during the 1970s and 1980s. Therefore, Veja plays an important role in shedding light on stories of corruption and waste at Petrobras, unveiling the inherent flaws that existed within the company. The analysis of foreign publications such as The Economist, Financial Times and Wall Street Journal also helped to provide foreign insights into Brazilian energy and economic issues, helping to provide a bigger picture.

As it happens with any dissertation, the choice for a certain scope and timeframe reflects either practical and theoretical concerns. In the realm of theory and historiography, there are some important trends that this dissertation intends to follow and which may help to explain certain methodological choices made for this research. One important source of inspiration has been the recent article published by David Armitage and Jo Guldi entitled Le retour de la longue durée: une perspective Anglo-Américaine, in the prestigious French EHESS Annales journal which offered an important reflection upon the return of long duration history in the 21st century. In the way that Armitage and Guldi presented their arguments, the rebirth of the long duration comes at a time when there are pressing needs to understand global structural problems. In that sense, that is why the use of a broader timeline is pivotal to that dissertation.

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Those pressing issues, mainly concentrated into the realm of economics and the environment, can only be understood by a historical narrative that aims towards an analysis that takes into consideration the long term view as an escape from the superficiality of daily debates. Moreover, the rise of massive global databases with instant access through the Internet provides unprecedented opportunities for analysis and comparison that were unthinkable twenty-five years ago.

One example cited by Armitage and Guldi was the influential work of French economist Thomas Piketty, “Capital in the Twenty-first century”, of what contemporary databases allow researchers to accomplish.\(^3\) Armitage and Guildi also present the union between the *longue durée* and global history as the *par excellence* economic/environmental narrative for historians in this century. Based on the tenets of a reborn long duration, a half-century narrative about Brazilian oil and its impact on macroeconomics can be justified. Since the administration of its oil policy has been a structural source of problems with huge consequences over a long period of time, trying to address the Brazilian oil conundrum in a piecemeal narrative would neither fulfill the social need for a structural analysis of the Brazilian oil industry nor reflect the amplified possibilities that the current sources and databases provides us.

Another important aspect mentioned by Armitage and Guldi is global history. This area of historical study that grows stronger in the Anglo-American center of scholars has in oil a topic where its framework fits with perfection. In trying to analyze a structural history of the political economy of Brazilian oil it is impossible not to deal with its global dimension. It goes beyond a mere diplomatic history that involved being both a supplier and a buyer of foreign oil; it involved global finance, global scientific exchange and global trade. In that sense, a narrative that takes into consideration a global history of Brazilian oil is one that can understand under which terms the Brazilian economy interest itself in the world economy in the age of globalization, with its potential prize and pitfalls.

\(^3\) Idem.
In aiming to deal with the global aspects of the Brazilian oil industry, the framework established by several historians served as an important source of inspiration. Through the analysis made by Niall Ferguson in *The Cash Nexus*, the whole web of global finance and the development of its tools and institutions over the last 300 years represent an important landmark.\(^4\) It is impossible to understand the development of such a capital-intensive industry without having to connect the dots with the financial side of the oil deals.

The Brazilian government made vast use of all possible financial leverage instruments described by Ferguson in order to compensate for its chronic shortage of capital. Moreover, the understanding of those financial instruments as essentially Western conceived and oriented presented an obstacle for Brazilian development in pivotal moments. In summary, Ferguson’s ability to insert those financial instruments into a consistent historical framework presented itself as an important instrument for the development of the narrative here contained. In talking about narrative and global history, the works from John McNeill and John Tutino\(^5\) from Georgetown University provide considerable support in how to deal with the challenge of a broad narrative. “Something new under the sun” (McNeill) and “Making a New World” (Tutino) provided the reader with a narrative that is broad, but never misses the analysis of the essential aspects of the topics they engaged with. When a long narrative is proposed, the most important thing is not to lose sight from the essential, and in this aspect both Tutino and McNeill’s works provided precious framework and insight that has been used in this dissertation.

The study of the political economy of Brazilian oil also obliges us to engage with Latin-American, and more specifically, Brazilian literature on oil and economic history. Regarding the history of oil, Mexico and Argentina are far ahead in terms of the quantity and quality of historiography produced


on this topic. One of the main goals of this research was to produce for the Brazilian oil history the same kind of work that Nicolas Gadano did for the Argentine oil industry. Both works provide a wide framework that results from thorough research that has been able to portray the political economy of oil in Argentina into a kind of narrative that it still missing for the Brazilian oil industry. The classic works of Carl Solberg and George Phillip on oil and Latin-America represent a high standard in the area for all those who try to follow in their steps, especially in having a broad perspective on oil issues.6 The extensive comparative research on State oil companies made by David Hults, Mark Thurber and David Victor was instrumental to understand Petrobras place in the oil industry.7 One aspect that will be avoided here is the interpretational duopoly created in the historiography about Petrobras, where Brazilians write true hagiographies of the company and foreign analysts try to dismantle them. Petrobras is neither sinner nor saint; it must be understood for what it is, an oil conglomerate. And as with any vertically integrated oil company, it has a mixed record of successes and failures, both big and public. Another theoretical pitfall that has to be avoided is the analytical treatment given to Developmentalism or ISI as an economic theory.

The recent treatment of the topic provided by Brazilian historiography has created an interpretational enshrinement of the concept of development.8 Their complete disgust (partially justified) for the Neoliberal years in Latin America blinded them to the great limitations of the economic model proposed by CEPAL (ECLA) or by Westerner thinkers such as Walt Rostow. In that sense, Developmentalism or ISI it is a category of analysis as any other in the realm of economics and its huge conceptual flaws must be addressed within the framework of Brazilian economic history, and by doing that allowing an under-

standing of the systemic failures that have thwarted Brazilian development over the last fifty years, especially in the realm of the oil industry.

In every stage of the Brazilian economic planning over the last seventy years, oil has been a pivotal instrument of development. Since the creation of the National Oil Council in the 1930s until the recent tenure of the Worker’s Party (PT), oil was at the center of narrative as a vital tool for development. It was important during the 1950s where the creation of Petrobras was meant to supply the booming industrialization with oil, in the same way that the company’s expansion in the 1970s served to foster the development of the Brazilian industrial park. During the transition to the 21st century, oil was a vital piece of economic policy, where it was perceived to be the energy matrix adequate to bring the rebirth of the Brazilian industry and to foster a more sophisticated consumer society.

Following those trends, although major breakthroughs have been made in the studies of the military dictatorship by historians such as Carlos Fico and Daniel Aarao dos Reis Filho, there is still a void that must be filled regarding what the military period meant for Brazilian macroeconomic development. This debate, that happens with more intensity in the realm of economics, made by intellectuals like Ricardo Bielshowsky and Bresser Pereira still reflect that view that enshrines Developmentalism and struggles to the impact and the need for the reforms that followed the Debt crisis of the 1980s. Brazilian Foreign policy studies such as conducted by Amado Cervo, Leticia Pinheiro, and Paulo Vizenatti, although represent an important step in understanding the framework of the topic, they also fall into the ISI enshrinement trap. Which becomes quite counterproductive in understanding more complex issues that surrounded the oil market and how it affected Brazilian development and its diplomacy regarding the developing world.9

More contemporary historiography on Brazil’s recent history presents us with huge challenges, since it is usually biased either towards against the Cardoso’s reforms from 1990s or against the current Worker’s Party rule since 2003. These narratives do not offer clear explanations and thorough analysis of the dismal situation of the Brazilian economy, and also why Brazil keeps squandering its short economic booms over and over again. For some on the Left, *Plano Real (1994)* and its mild neoliberal reforms were seen as anathema for an intellectual elite that still dreams about old fashioned socialism.

On the other hand, pro Cardoso social scientists tend to assume that all Brazil’s current problems stem from the Workers Party (PT) and its spendthrift habits. Reality ultimately lies in heavily muddied waters. Due to the charged political atmosphere that followed the 2014 presidential elections, it has become increasingly hard to realize that both parties suffered from similar pitfalls more than its adherents are willing to admit. An thorough study of oil and macroeconomics may provide us that perspective, one that may demonstrate that Brazil’s current economic problems derive from structural/historical causes. The Brazilian economic malady goes beyond political parties, it is embedded in its social fabric, its approach towards capitalism and in its colonial legacy. Petrobras and Brazil’s relationship with oil may be the greatest living symbols of those contradictions that tear the Brazilian economy apart so frequently.

Most of historiography focused on Brazil and oil suffers from that very same problem. Most on what has been written about the early days of Petrobras presents itself as hagiography of the company. Although, some of the narrative fairly portrays the early days of the company, such as Drielli Peyerl, scholars like Jose Luciano Dias and Ana Maria Quaglino perceive it through a more romantic perspective. Meanwhile, the more modern phase of Petrobras has been better covered by American scholarship, especially by scholars such as Tyler Priest, Peter Seaborn Smith and Laura Randall. The only laudable exception must be made to the fantastic work made by Jose de Morais on the technological evolution of off-

shore oil in Brazil. Their works do not follow the hagiographic path like the Brazilian analysis, but sometimes they fail to connect with the broader macroeconomic illnesses that seriously affected Petrobras’ ability to thrive. Taking those two views into consideration is a major concern for the narrative to be established in that dissertation.

There are important considerations to be made regarding the timeline of this dissertation. It should be expected that, given the fact that Petrobras was founded in 1953, this would have been the starting point of this dissertation. However that is not the case, since the focus of this dissertation is upon the way in which the oil industry and microeconomic cycles in Brazil are interconnected, meaning it seemed a better idea to start the analysis in 1967 instead. The year of 1967 marked the beginning of Brazil’s exponential economic growth under the aegis of the military regime, which would result in a huge change in the terms of the microeconomic cycle. Moreover, as oil finally surpassed firewood as the main source of energy in Brazil, it represented the beginning of a new expansionary cycle.

Another factor that is important in my choice of 1967 was the previous literature by Tyler Priest, Drielli Peyerl and Peter Smith, which have already covered Petrobras’ history from 1953 to 1967 in a thorough way. The true challenge left regarding the oil historiography in Brazil was not explaining the technical aspects of what happened during the last 63 years, but rather understanding how the company’s activities and macroeconomic cycles are intertwined.

In spite of the fact that Armitage and Guldi suggest that ideally the long duration they propose should go centuries into the past, even flirting with the boundaries of the Anthropocen., this dissertation is less ambitious in terms of chronology. The four chapters of this dissertation encompass forty years of Brazilian oil history, which we could consider the possible longue durée of the Brazilian oil industry. Chapter one (1967-1974) analyzes the place of oil in the economic policy of the Castello Branco and Costa e Silva presidencies (dictatorships). The first chapter also aims to contextualize the Brazilian energy conundrum faced by the government at that time and how the Brazilian situation within the oil industry was still precarious, given its huge need for foreign oil and lack of domestic production. It also deals with
the rise of Petrobras as a global player during the Geisel’s stint as Petrobras’ president (1969-1973) and finally the impact of the 1973 Oil Shock over Brazil’s so called “Economic Miracle”.

In chapter two (1974-1979), the focus is on the reaction of the Geisel administration to the 1973 Oil Shock and the tough choices he had to make in order to keep the Miracle working. Geisel tried to perform a complex act by trying to keep economic growth and plentiful oil supply in a time of great instability in the global oil market. Geisel’s presidency marked a huge moment of expansion for Petrobras at home and abroad, mobilizing all the nation’s resources into the pivotal quest for oil. The mid 1970s in Brazil were also marked by the attempts of opening towards democracy, therefore making economic stability an essential tool, so the military junta could keep that process under its control. During Geisel’s period there was also an emphasis on how oil was an instrument for Azeredo da Silveira’s foreign policy called Responsible Pragmatism (Pragmatismo responsavel), and how the Great Oil Diplomacy was born as an offspring of Silveira’s initiative.

Chapter 3 (1979-1989) deals with the 1979 Oil Shock and its impact in Brazil. The goal is to analyze if oil was actually the main culprit of foreign debt and hyperinflation or if it was merely an easy scapegoat for the military’s flaws in economic planning. It also aims to deal with the end of the Great Oil diplomacy during the 1980s and the struggles of Petrobras during the economic implosion of the Lost Decade. The debt crisis clearly affected the company’s ability ability to invest and progress. Paradoxically, the 1980s marked the full development of the Campos basin and the boom of Brazilian domestic oil exploration. Unfortunately, those advances were hindered by several accidents, corruption and mismanagement that culminated with near bankruptcy by the end of Jose Sarney’s administration.

Finally, chapter 4 (1990-2003) deals with the impact of the Neoliberal reforms that affected the Brazilian oil industry during Fernando Color and Fernando Henrique Cardoso’s presidencies and what it meant for Brazilian economic development, the end of the Petrobras monopoly, and the creation of the National Oil Agency (ANP). By 1990, Collor’s presidency promised to revamp Petrobras from its culture of waste and refocus the company towards its main businesses, oil exploration, refining and fuel retailing.
Those promises fell flat, as Collor’s failed economic policies put the company into a worsened financial situation and his political entourage tried to use Petrobras to benefit their own patronage networks. After Collor’s impeachment (1992), it was Itamar Franco’s and Fernando Henrique duties to restore the economy and Petrobras back from its knees. Towards a series of reforms, especially during Cardoso’s first term (1995-1999), Neoliberal reforms and greater insertion in the world market marked the rebirth of Petrobras. But even that overall rebirth of Brazil was marked by some of the old problems, affecting the efficiency of the reforms, the economy and the domestic oil market in general.

At the end of their paper, Armitage and Guldi called the reader’s attention to the essentials of their proposal and what it that meant to historians. It affirms, above all, that a view that emphasizes the long term is necessary to understand the pressing issues of our time. Nothing could be closer to that than a study of the political economy of Brazilian oil, given the size of the crisis that not only Petrobras, but the whole Brazilian oil industry faces during the second decade of the 21st century.

Last, but not least, both authors warn that new historians of the long duration should use this instrument in order to challenge the sanctity of institutions, honestly questioning them and examine their flaws and contradictions. Companies, political parties, and religious organizations should not provoke a sense of obeisance from historians, but rather the opposite.10 The spirit of “critical social science” must be present if historians truly intend to analyze the economic merit of certain institutions. Only then, a society will be able to judge which corporations still deserve public forgiveness and protection, even after the poisoned chalice had been served to its own people once again.

1. The Efficient Monopoly (1967-1974)

The year of 1970 was certainly an unforgettable one in Brazilian history. Brazil won its third World Cup in Mexico, crowning Pele as the world’s greatest player. The economy grew by more than 9%, a new middle class was booming and urban centers such as Sao Paulo and Rio de Janeiro were starting to savor consumable luxuries only affordable in the developed world. But on top of all that, a barrel of oil cost less than two dollars, fueling a whole new automobile civilization, which was the embodiment of modernity for the Brazilian military junta.

This extremely favorable moment was called the “Milagre Economico” (economic miracle), which lasted from 1968 until 1974. The dubbed Miracle did not come as manna from the heavens, but was rather a carefully crafted plan applied by the military regime with the help of three extremely capable civilian economists, Octavio Bulhoes, Roberto Campos and Delfim Netto. Bulhoes and Campos were the representatives of a more conservative, pro-market school of economics, but Delfim was much harder to define, although his line of action was closer to a mainstream Keynesianism, typical for the mid-1960s.

Right after seizing power in April 1964 the military sought to purge Brazil of what they perceived as a “communist/populist threat.” However, their greatest challenge was on the economic front, given the feeble state of the country’s finances left by the deposed Goulart administration. Inflation was rampant (42% yearly), several debts with the International Monetary Fund and the Eximbank were maturing, and there were high tensions between la-

bor and capital, evidenced by the frequent and violent strikes that were directed at the Goulart administration.\textsuperscript{12}

The military, led by General Castello Branco, wanted to conduct a major revamp of the economy, putting Brazil on the course to modernity. Modernity meant following the steps of the United States and turning Brazil into a major industrial powerhouse, so that the country could be strong enough to resist perennial political instability.\textsuperscript{13} In the chaotic days that followed the coup, Bulhoes and Campos methodically gathered information, so a clear diagnostic could be brought to Castello. In essence, the new economic team believed that Brazil had to follow a whole new economic course. After careful consideration, three areas were perceived as Brazil’s Achilles heel: inflation, investment capital and energy. If Brazil could master these three issues, GDP growth, productivity, and rising incomes would follow.

The new economic team used the raw power provided by the military to impose a severe deflationary program by inducing a recession whose goal was to kill inflation at the expense of the workers’ incomes. Regarding capital, the economic team’s first action was to strengthen ties with the Johnson administration and mend fences with the IMF and the Eximbank. That line of action was extremely successful, given the fact that the Johnson administration was more than willing to help a government that presented itself as the spearhead of the fight against Communism in South America. Brazil got the lifeline it needed from the international

\textsuperscript{12} International Monetary Fund. (1968) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1968 Article XIV consultation. SM/ 68/124. Pp. 3-18.

capital and engaged in a more ambitious goal to become a magnet for foreign investment, so the perennial problem of investment capital shortage could be solved once and for all.\(^\text{14}\)

And finally, there is the issue of energy. For all the talk of development that has dominated the country’s life since the rise of Getulio Vargas to power in 1930, Brazil was weak, exposed, and did not have a clear strategy to tackle the energy conundrum. The best representation of this situation was the fact that still by 1966 firewood still was the main source of energy for the Brazilian economy.\(^\text{15}\) For more than thirty years, Brazil had tried to join the second industrial revolution with an energy matrix from Hanoverian Britain, 250 years ago.

Even with such constraints, Brazil was already the largest industrial park in Latin America. The country was growing fast, not only in essential industries such as steel, but was also developing fast a competitive white-line goods industry, one that focused on the buoyant urban middle class. However, the lack of cheap, modern, and abundant energy sources seriously affected the country’s economic fortunes, and policymakers understood that this problem demanded a more radical solution.

In that sense, the goal of this chapter is to analyze where oil fits within the context of the Brazilian Miracle. Given Brazil exponential growth from 1968 until 1973, oil played a huge importance, since it was the major energy source behind Brazil’s industrial drive. In that context, it was vital for the Brazilian state to secure plentiful oil supplies abroad, since its domes-


tic output was insufficient. In choosing to opt for foreign oil, the military put Brazil’s economic development an path from where there was no return.

The oil option also meant that Petrobras needed to be straightened and an expended foreign policy towards the Middle East became necessary as well. Despite its success in securing the oil supplies for its economic expansion, the Brazilian model had great flaws from its onset, flaws that were exposed by the 1973 Oil Shock and which ended the “easy stage” of Brazil’s ISI project.

1.1 Building Petrobras in the Miracle Years

Petrobras was created in 1953 by Getulio Vargas in order to provide Brazil with oil, the only energy source capable of launching the country into a new age of development. Petrobras quickly became the largest company in the country, with the powerful clout from the taxes levied by the government specifically to finance its growth.16 The idea was that Brazil was a country full of oil, but the foreign majors such as Shell and Standard Oil were not willing to invest in the country. From their perspective Brazil was already profitable as a retail market, and Venezuela, Argentina, and Bolivia were already proven sources where the majors were already well established.17

If Brazil wanted to become self-sufficient in oil it would have to do it by itself. When the military seized power, Petrobras for all its power and political prestige, had no oil to show for its endeavors. As the Finance minister Builhoes liked to say, Petrobras had the “monopoly of empty holes.” After several exploratory missions conducted by competent geologists from Brazil and abroad, not a single meaningful discovery had been made. A few wells in Bahia and Sergipe were producing at a peak of around 180,000 bpd, which by the late 1960s was around 40% of the total Brazilian oil consumption.\(^\text{18}\) Despite of the fact that in terms of oil self-sufficiency seems to be a good index, Brazil always had troubles with its Dollar reserves. And the oil purchases put a lot of pressure on Brazil’s perennially low reserves, so one percent of extra domestic oil was meaningful to the health of the Brazilian economy.

Petrobras had achieved more success in building a decent infrastructure for refining, transportation, and exploration technology. But, the main refineries of Cubatao (Sao Paulo) and Landulpho Alves (Bahia) were considered to be mere “destillaries” when compared to the private refineries built by the Uniao group and, on a lesser scale, by the Ipiranga group.\(^\text{19}\) By the mid-1960s, Petrobras was mainly an oil buyer in the international market, where it acquired almost one hundred percent of its imported oil from the majors. Petrobras had an easy market to deal with in the 1960s, prices were stable and the majors controlled everything.

While Petrobras was investing staggering sums that could reach US $300 million to find oil at home, the company balanced its cash flow with specific federal taxes and the monopoly of oil imports, granted by the Goulart administration. Petrobras was given this new right by the Brazilian government, from 1962 until 1997, Petrobras was the sole buyer of foreign oil to the Brazilian market. Usually the government did not interfered with the company’s crude purchases, except when the services of Brazilian diplomats were needed to secure the deals abroad.  

In summary, by 1966 Petrobras was a weakened giant, whose cash flow was chronically unstable and there was no major oil discovery in sight. Goulart’s approach towards oil policy emphasized more politics than policy, and the company was thrown into turmoil. The core strength of the company was in its “espirit de corps”, its infrastructure, but above all, its monopoly. While the Castello Branco economic team was imposing a tough recessive medicine to the country, at Petrobras they had adopted a more gradualist approach. First, their goal was to eliminate the strength of the unions in controlling the company’s policies, as had been a feature of the Goulart administration.

That goal was mainly achieved by a purge of mild standards when compared to what happened in other parts of Brazilian society. Although some of the senior technicians of Petrobras were shocked by the purges and were not essentially pro-military, as it became evident in Edison Gueiros and Carlos Sant’Anna’s testimonies to the Getulio Vargas Oral History project. they were ultimately satisfied with the new circumstances in which they found

21 Idem.
themselves. For Petrobras’ top brass, pragmatism became their new mantra, and therefore the company had to have a clear and concise plan. That new policy put the company on a correction course, far from the more idealistic years of the Goulart administration that praised the ideal of a “people’s company”.

From 1964 until 1969, the company reevaluated its purchases from abroad, opting for the Middle East as a new and reliable source of oil. Petrobras was responsible for conducting all the oil imports made by Brazil, a power that was extended after the military coup in 1964. For the new administration, the Venezuelan oil sold by the Majors was a very expensive and was not interested in promoting major trade agreements with Petrobras This change towards the Middle East was pivotal, since Brazil was now attaching its whole development plan to the Majors oil supply in Saudi Arabia and Kuwait, an area of the world where Brazil had little diplomatic and economic presence. Despite the risk involved, this move made a lot of sense given the ambitious goals the military junta sought to achieve.

In 1967, Marshall Arthur da Costa e Silva became the second military president. The consecutive years of induced recession and political purges had about social unrest that was close to breaking point. The new president was considered to belong to a branch of military hardliners, and he was willing to keep order at all costs. Therefore, in order to garner support

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22 Idem.
for his new administration, he fired Campos and Bulhoes, and vowed to start a new cycle of growth and prosperity.²³

In addition to the major economic changes conducted by the military junta in Brazil, the year of 1967 was a watershed for Petrobras. After all of the instability brought by the military’s attempts to “sanitize” the company against what they considered to be “subversive” elements from the left, the military junta was willing to change course. Despite all of the immense pain and trouble brought upon the workers who were subject to official inquiries at Petrobras, by 1967 the company was focused solely on its core business, something that did not happen under Joao Goulart’s presidency.

That new focus allowed the company to set up a series of technical processes that culminated with the important findings at the Campos Basin during the 1970s and 1980s. In its quest for meaningful oil sources, Petrobras benefitted greatly from the considerable technical progress achieved by the oil industry in the Gulf of Mexico and the North Sea. One of the most meaningful findings of that period was the discovery of possible oil reserves in carbonate formations from the Albian Age. According to Tyler Priest, in 1966 Elf-Aquitaine engineers suggested that their counterparts in Petrobras do the same, and the results were quite impressive. The first meaningful oil fields at the Campos Basin (Garoupa field) were

found in carbonate formations in shallow waters, but it was a sign that the company’s new exploration policy was on the right track.24

The late 1960s marked an expansion of Petrobras investment in its research and exploration budget, which in 1967 increased by 37% over the year before. That important increment reflected a country that was achieving higher levels of economic stability and was finally recovering its investment capabilities. That newfound stability allowed several initiatives at Petrobras to finally blossom. In the realm of research capabilities and the development of a highly qualified workforce, there were important initiatives since the 1950s, before the creation of the integrated research center at Fundão Island (CENPES) in 1975. The new discoveries made in Campos did not happen by coincidence: a more qualified core of engineers and geologists was ready to seize the company’s revival.25

As demonstrated by Drielle Peyerl, there had been substantial investment by Petrobras in the previous years to bring in experts from the United States and Western Europe to create the necessary scientific expertise. It took years to create at Petrobras and the Brazilian state higher education system the necessary structure to form a permanent, highly-qualified corps of engineers and geologists.26 By the mid 1960s, such structure was already in place, which happened exactly at the right time for the company to benefit from a more favorable macroeconomic cycle.

25 Idem.
In order to foster that positive macroeconomic cycle, the military junta had a name in mind. Antonio Delfim Netto, a young professor of economics who was also assisting the state of Sao Paulo in its economic affairs, was called to lead Brazil’s economy. Delfim was born in the industrial neighborhood of Cambuci, Sao Paulo. He was the perfect example of a new generation of Brazilians, self-made and self-confident in the nation’s future as a major world power. Delfim shied away from the ultra-pragmatism of the Campos-Bulhoes team and set very ambitious goals for growth and prosperity in Brazil.

For Petrobras that meant that over the course of the next decade the country would need far more oil than it was able to provide through its own supply. Technicians acknowledged that in the short term there were no real prospects of finding major oil reserves onshore, and some offshore drilling was still in its infancy. Petrobras would have to be well positioned internationally in order to find substantial suppliers that could be reliable and cheap. That was when the Middle East got in the scene and for the first time a Petrobras initiative teamed up with Brazil’s Foreign Office.

Costa e Silva initiated a program called “Prosperity Diplomacy” designed to expand even more Brazil’s global trade beyond the traditional partners in the United States, Western Europe, and South America. This global engagement was necessary given the scale of Brazilian economic ambitions for its imports and exports. In that sense, the Middle Eastern market was

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seen as a potentially profitable market for Brazilian exports, which in theory could help to slightly offset the impact of future oil.\textsuperscript{28} I

Itamaraty, as the Brazilian Foreign Office is known, was not well positioned to perform this task. It only had diplomatic representations in Lebanon, Morocco, and Egypt, and it had to make a full diplomatic move towards the main producers such as Saudi Arabia, Kuwait, Iran, and Iraq. Petrobras initiated a small partnership with NIOC (Iran) in 1967, trying to help Iran’s company to develop the oil findings in new areas. Some of the first deals involving oil and Brazilian products also were made during this period. However, these initiatives would need different conditions to mature and fulfill their potential.

Meanwhile, other macroeconomic conditions were about to help Petrobras to enter a positive cycle and also to help the country in its own positive economic cycle. The main gain made by the Campos-Bulhoes tenure was the reorganization of the federal government budget and the success of its anti-inflationary program. Inflation fell from 42\% in 1964 to less than 20\% by 1970, a testimony to the success of the program implemented by Campos-Bulhoes that was not totally abandoned by Delfim Netto.\textsuperscript{29}

Delfim became a popular figure, a goal that had eluded the Campos-Bulhoes team during their term. He was a much better salesman than either Campos or Bulhoes with as much panache as Henry Kissinger. This marked feature of his character helped Brazil to charm for-

\textsuperscript{29} International Monetary Fund. (1970) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1970 Article XIV consultation. SM/ 70/124. Pp. 8-35.
eign bankers in the United States, Europe, and Japan. The new Eurodollar market was mainly composed of American banks looking for better profits than the American lending market could provide during the mid-1960s. By that time, American and European banks were eager to find new lending markets, since interest rates at home were so low, they desperately needed to find economies that were in hunger for plentiful credit. In that sense, developing countries going through the first states of its ISI project seemed to be exactly what the bankers needed.30

Delfim and operators in the Eurodollar market saw great potential to benefit from a strong relationship. The Brazilian finance minister understood that the Eurodollar market had the potential to fulfill the capital demands that Brazil had for its development and Brazil was the kind of lending market the Eurodollar banks were looking for: prosperous, hungry for capital, and with bumper profits to be made from interest payments. That combination of low inflation, a controlled labor market, and abundant capital helped to create a virtuous cycle at Petrobras. And by a stroke of luck, the company benefitted from the kind of leadership that it needed at that moment in the figures of Ernesto Geisel and Shigeaki Ueki.

When General Emilio Medici became the third military president, in 1969, following a long illness that committed Costa e Silva, he assumed charge of a country in the midst of considerable social turmoil. Institutional Act 5 (AI5), decreed by the junta in 1968, gave the military the legal power to use their iron fist against elements they considered to be “subversive”. Tackling internal insurrections of urban guerrillas was the main goal for the Medici

administration, and therefore he had to be able to delegate tasks in other vital areas of the state to people that he knew well.

Geisel and Medici were both from Rio Grande do Sul and had known one another since their early days in the military, although they attended different military schools. Medici had always admired Geisel’s intelligence and his ability to command.\(^{31}\) For Medici, Geisel at Petrobras and Delfim’s permanence at the helm of the Finance Ministry was a strong combination that would allow him to focus on other topics that were dear to him, such as “subversion” and the Brazilian soccer team.\(^{32}\)

Within the government there was a sense of urgency, but the fights among different ministries often proved to be an obstacle to a more coherent core of energy policies. During the Medici administration (1969-1974), there was particularly intense internecine conflict between Delfim Netto (Finance), Antonio Dias Leite (Energy) and Ernesto Geisel (Petrobras). The decisions that emerged from the inner workings of the Medici administration left Brazil committed to a costly pursuit of all sorts of energy sources, a trend that was only enhanced by the future military administrations.\(^{33}\)

\(^{31}\) “Memoria Política: Delfim Netto.” youtube.com. Last modified June 26th, 2011. [https://www.youtube.com/watch?v=I09ca5jQkTY](https://www.youtube.com/watch?v=I09ca5jQkTY)


When Geisel took over Petrobras on November 6th 1969 he promised to bring change to the company. As his closest assistant he brought Shigeaki Ueki, the 34 year old son of Japanese immigrants. Ueki’s profile was similar to Delfim’s, a self made man from a middle class family who had experienced a meteoric rise in statute as a lawyer at Petrobras. Some of Petrobras’ most senior managers were appalled by the revolution brought about by both men, and the aggressive style they adopted in pursuing their goals. Geisel and Ueki were men on a mission defined by Medici.

The Geisel-Ueki revolution came in many forms and at a time when the company was able to capitalize itself through the Eurodollar market. Their first act was to recognize that Brazil needed to continue strengthening its ties to the producers in the Middle East through longer contracts and diplomatic advances. Geisel and Ueki also understood that by the early 1970s the global oil game was changing fast, and that the Majors monopoly on Middle East oil was fading away. In that sense, it was important to be close to the Majors but also to establish new relations with the rising national companies such as INOC (Iraq), Sonatrach (Algeria), Petromin (Saudi Arabia), and KNPC (Kuwait).

Petrobras was also moving aggressively towards the retail market, dominated in Brazil by Shell and Exxon. Finally, they focused upon complete control and the expansion of the refining sector in Brazil, increasing the availability of all products derived from oil. The advance

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coach, Mario Zagallo, who happen also to be a former military man, called Dario Jacare and Brazil became world champions in 1970.


towards the downstream sector was also seen by Geisel and Ueki as a good way to raise funds that could be reinvested in the prohibitively expensive activity of finding oil in the Brazilian territory.\(^\text{35}\)

In 1968, when Delfim started to relax the credit control and the economy started to soar once again, major productivity and consumption gains were made.\(^\text{36}\) As GDP growth started to surpass the 8% threshold in 1969, a huge strain was put on the energy sector and the thirst for capital to develop that sector became even bigger. Brazil’s debt service in 1970 was relatively low, only 20% of exports. Given the fact that the budget was in place, that most of the debt service did not affect the country’s income and Brazilian commodities were valued in the market (coffee, iron ore and cocoa), Brazil had plenty of room to obtain credit in order to finance the infrastructure that it needed.\(^\text{37}\)

1.2 Geisel Revolution and the Growth of Petrobras

The first stepping-stone towards reaching energy self-sufficiency was the expansion of the Petrobras refining system. Since 1968, the consumption of oil derivate products was in-

\(^{36}\) International Monetary Fund. (1968) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1968 Article XIV consultation. SM/ 68/124. Pp3-70.
International Monetary Fund. (1971) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1971 Article XIV consultation. SM/ 71/124. P 47.
\(^{37}\) Idem.
creasing by more than 10% every year. Brazil spent until 1970 US$ 38 million in the refining sector. Despite of this positive result, a lot more had to be done in order to provide the oil derivatives for a booming economy.

Most of that was consumed by a booming auto-industry located in Sao Paulo that was controlled by four major foreign producers, General Motors, Ford, FIAT, and Volkswagen. The auto industry put pressure on other sectors such as steel and asphalt. A booming middle class aspired to a new lifestyle based on the car, similar to that which they saw in Hollywood movies or in Globo TV soap operas. Advertising was aggressive and the government liked the idea of prosperity attached to modernity.

Petrobras and Uniao were investing heavily in expanding the existing refineries and in building new ones. From 1970 until 1972 Petrobras was expected to invest US$ 800 million in refining, especially in building new refineries in the state of Sao Paulo, where the car industry was located.\textsuperscript{38} During the early 1970s Sao Paulo surpassed Bahia as the primary refiner of oil in Brazil. It was Petrobras’ plan to be closer to the economic core of the country, and given the lack of improved transportation infrastructure, it made a lot of sense to consolidate the whole refining business in the southeast.\textsuperscript{39}

The Uniao refining group was responsible for an interesting chapter in Brazilian oil history. Its refineries were the heritage from a pre-Petrobras age, when private companies could import oil freely to the Brazilian market and only the National Oil Council (CNP) controlled

\textsuperscript{38} “Mais uma verdade” Veja, June 26th, 1970. Veja in this case was used to demonstrate the broad coverage given to the expansion of the petrochemical sector in Brazil.

the prices. The Uniao group was mainly owned by the powerful Moreira Salles banking group and the Union Carbide company, a subsidiary of Dow Chemical. With the financial clout of such powerful groups, Uniao owned the prized Capuava refinery in Sao Paulo, one of the largest refineries in the country.

The company had all the conditions to invest and was following Petrobras’s example in 1970 by investing heavily in its Capuava unit. Those heavy investments culminated with the creation of the Capuava petrochemical pole, but, it was Petrobras’ plan to consolidate all the downstream business under its belt. At that moment, Brazil was going through a great statist momentum, where only powerful state owned companies seemed capable of advancing the task of development and in the process becoming national champions.

In that sense, Uniao was more of a nuisance for the Brazilian government than an alternative solution to the energy problem. Geisel slowly started to encroach upon Uniao, creating the right political moment for the incorporation of Capuava. During a visit to the Congress in August 1970 opposition Senator Jose Ermirio de Moares confronted Geisel, arguing that the full monopoly of Petrobras over the refining business was an abuse of state economic power. Geisel answered that the monopoly was an “instrument of action” that the company would not be shy of using it to its own purposes.40

In the mood of pro-Dirigisme that prevailed during the Geisel years, he was certainly ruthless in what he perceived to be an obstacle to Petrobras’ full dominance of the Brazilian

40 “Monopolio, mas nem tanto.” Veja, August 5th, 1970. Veja was used in this case to contrast between the magazine’s more Liberal view against the interventionist economic policies from the military junta.
market. In 1974, in one of his first acts as the new president of Brazil, Geisel incorporated Capuava and all Uniao assets transferring all its refining activities to Petrobras. It was not the last fight that Petrobras would have with the private sector. The episode showed not only how entrenched the statist logic was by meddling with something that was working only for the sake of principle, but also how determined Geisel and Ueki were to conduct affairs according to their own dictum.

After 1970 Petrobras conducted a strong policy of not only expanding the existing refineries, but also of building new ones. The apex of that policy was the inauguration of the new Paulinia refinery, located in the state of Sao Paulo. A small town of only 12,000 people saw their lives turned upside down by the huge refinery. Rents went up, new streets were built, and hotels and stores were suddenly booming. At the grand opening, President Medici himself was present and in his speech he affirmed that, “Paulinia was an important brick in the building of the fatherland”. At the cost of US$ 400 million Paulinia was the statement of the ambitious intentions that Petrobras had for the area.41

The whole Paulinia complex, including its 246 km pipeline towards the Sao Sebastiao port were only 20% of all investments of Petrobras in 1972. The fact that 80% of Paulinia’s cost was self-financed showed how financially strong the company was. Further plans for the near future involved the creation of a new petrochemical complex, probably at Rio

41 “O Limite inaceivatel da poluicao” Veja, July 12th, 1972. Veja was used in this case as a rare case of a story covering environmental aspects in Brazil. Petrobrás.[Rio de Janeiro, Serviço de Relações Públicas da Petróleo Brasileiro S/A, etc.], 1954-1979
Grande do Sul, and the expansion of the Duque de Caxias refinery in the state of Rio de Janeiro.\textsuperscript{42}

The expansion of the refining sector was certainly part of a clear strategy of guaranteeing Brazilian independence in that niche of the oil cycle, and also a major factor behind the boost that the Miracle saw after 1969. But, there was another important issue that has been very often forgotten by historians. Despite the fact that Brazil could barely provide 20\% of its oil needs by 1970, the country was an important oil products exporter, achieving a huge success in that area as well. Given the fact that Petrobras held sway of huge reserves of Middle Eastern oil because of its long and fat contracts.

Petrobras’ enhanced refining capacity created a considerable surplus not only of gasoline, but of all sorts of oil derivate products. Thanks to the surplus of oil sub-products and the size of its economy, by the early 1970s Shigeaki Ueki started an aggressive strategy of selling that surplus to other neighbors in South America. Petrobras expanded its sales to Argentina, Uruguay, Paraguay, and Chile. In Paraguay and Uruguay, in a few years Petrobras reached a position of virtual dominance, being responsible for more than 60\% of the gasoline that was imported by those countries.\textsuperscript{43}

In Argentina, Brazil took advantage of the fact that the local refineries, such as La Plata and Dock Sud were already outdated and hampered by the perennial efficiency problems

\textsuperscript{42} Idem.
faced by the Argentine state company YPF. On top of that, Petrobras seized the advantage by exporting the little oil that Brazil had, the so-called Carmopolis oil. This oil was very heavy and it solidified when in contact with surface temperatures, which made it extremely challenging for the Petrobras refineries. But, there was a solution in sight. After creating the Environmental Protection Agency (1971), the Nixon administration was looking for new sources of low Sulphur oil, where the Carmopolis oil fit perfectly. Brazil started to discretely export its own oil to the United States, cautiously guarding this information from the more nationalistic sectors of the Brazilian politics.

Geisel and Ueki considered themselves to be true patriots, but they were pragmatists above all. This business was so profitable that from 1972 to 1977 Petrobras earned US$ 1.3 billion from selling oil and gasoline abroad. Such handsome profits helped the company to expand its activities further, demonstrating how agile and effective Petrobras could be in pursuing its goals. It had transformed a clear disadvantage (the lack of oil) into a huge asset, providing Brazil with badly needed foreign currency reserves.

1.3. Petrobras Retail Revolution in Brazil

When Petrobras was created in 1953, one of the main conditions for its creation was that the new company would focus on exploration, commercialization and refining only. Retail,

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44 Idem.
45 Idem.
the sweet and easy part of the Brazilian business, would be left untouched for the Majors. Vargas and other pro-Western politicians did not want to interfere with important American and British oil interests, especially since the Iranian crisis of from 1951-1954 where a coup occurred after a forced attempt at oil nationalization, remained fresh on their minds.47

Standard Oil (which in Brazil used the Esso brand) and Shell have dominated the oil market since the kerosene times, in the late 19th century. During the first four decades of the 20th century Argentina and Uruguay were more dynamic markets for retailing given their higher levels of income. Brazil, with its firewood, trains, and chariots was still a second rate market in South America.48 Most of the little oil that Brazil bought was refined by Shell and Standard Oil in Venezuela and brought straight to Rio de Janeiro. However, after the Second World War the car craze took hold of Brazil once and for all as imported Cadillacs, Studebakers, and Packards started to bring a new urban dimension to the ill-suited streets of Rio de Janeiro and Sao Paulo. From that moment on, Brazil became an important retail market for the majors.49

By 1961 Petrobras started to slowly break the silent pact it had maintained with the majors since 1953, at first by displacing their contracts to provide gasoline and oil to the Brazilian navy. With all the turmoil that happened before and after 1964, the idea of a strong retail-

ing branch took time to take off, and most of that was because people were afraid that Petrobras would fail and precious resources would have been wasted. But Geisel and Ueki were not easily intimidated and relished the possibility of confronting the Majors. Ueki was responsible for crafting an aggressive strategy that would give Petrobras the edge in the Brazilian retail market over the long run.

The first action was rebranding the Petrobras logo, a grey hexagon that was considered by market experts to be “rather dull.” A designer’s team came up with a new idea that was catchy and patriotic at the same time. The idea was to use two capital letters, BR (stands for Brazil), in white with a yellow and green background that would stand for the colors of the Brazilian flag. The new design would be followed by a whole new concept for gas stations whereby they would be treated as “service stations”, as it was also done by the Italian oil giant ENI. These new service stations would be able to provide all kinds of services, such as restaurants, motels, and convenience stores. The idea was to create a connection with consumers where they would associate BR with first-class service and at the same time feel they were doing their patriotic duty when filling their tanks in a BR service station.

The strategy adopted by Petrobras in the creation of its new BR brand also resembled the approach of the Argentine state oil company YPF. During the 1930s and 1940s YPF was engaged in a similar campaign to improve its market share in what was the extremely valuable

51 Os Superpostos”. Veja, November 10th, 1971. Veja in this case used to demonstrate the growth of the BR retail infrastructure.
Argentine retail market. YPF resorted to a very nationalistic tone and used the colors of the Argentine flag not only in its logo, but also in its own gas stations.

The service provided by those YPF gas stations were *gauchito* themed, all well-groomed to appeal to patriotic feelings. On top of that, YPF used its political contacts, since it was a state company, in order to obtain licenses to operate in the busiest avenues of Buenos Aires. That gave it the control of all traffic bottlenecks in the city, which soon gave YPF the edge in the Buenos Aires retail market. The strategy proved to be a huge success and the gas stations became a valuable revenue generator for YPF, Petrobras, and ANCAP (Uruguay) also followed the same path with equally positive results.52

The new BR understood that it was pivotal to control the main four markets for downstream products: Sao Paulo, Rio de Janeiro, Belo Horizonte, and Porto Alegre. The first major gain for Petrobras was gaining the right to have the monopoly of all gas stations in the profitable Via Dutra highway, between Sao Paulo and Rio de Janeiro. The new BR service stations would be fit to welcome truck drivers as the perfect resting point. Since trucking was responsible for 80% of the transportation of goods in Brazil, the control of Via Dutra represented a major gain for Petrobras in its strategy of market encroachment of the duopoly previously established by Shell and Esso.

The next round of that battle was about to be fought in a predictable arena: the sunny beaches of Rio de Janeiro. The concession of the coveted Aterro do Flamengo beach point,

which belonged to Shell, was about to expire. Petrobras acted decisively in putting political pressure on the Rio de Janeiro state government, even promising to fill their cars with cheaper gas for a long period. The state government could not say no to such a good offer and awarded the new contract to BR. Shell formally complained to the state government of unfair competition and of the excessive influence of Petrobras in government affairs.53 But Geisel and Ueki’s last concern was with being perceived as fair; they wanted to be seen as efficient, regardless of the moral cost. Business were business, simple as that.

Another interesting strategy adopted by BR towards independent gas station owners that were acting as subsidiaries for Shell and Esso was offering generous signing bonuses for them to switch to BR. Those signing bonuses could reach the sum of US$ 90.000, a considerable amount and far above what was being offered by the majors in similar deals.54 The final measure imposed by BR on its competitors was granting BR gas stations to regional celebrities from different states. The famous pop singer, Roberto Carlos, owned a BR station in Sao Paulo by the early 1970s.

But nowhere was this strategy taken further than in the southern state of Rio Grande do Sul where Petrobras conceded one station to Teixeirinha, an immensely popular *gaúcho* folk singer. Teixeirinha himself went to the station three times a week and performed private shows and sang together with customers. Every show was followed by a huge barbecue, that

53 “Gasolina: um mercado em ebúlicao.” Veja, July 25th, 1973. Veja in this case is used to demonstrate the expansion of gasoline consumption during the boom years.
54 Idem.
was enjoyed by many truck drivers. BR and Teixeirinha proved to be unbeatable in Rio Grande do Sul, and the phenomenon repeated itself all over the country.\textsuperscript{55}

When the numbers reflecting the market share owned by Petrobras before and after the creation of BR are compared, the results confirm the resounding success of the strategy implemented by Ueki. In 1964 Esso and Shell owned more than 70\% of the Brazilian retail market, while Petrobras controlled a meager 5\%. From 1966 until 1970, when the inception of the BR brand occurred, growth was steady and Petrobras reached 15\% of the Brazilian market. After the creation of BR (1971), the company’s growth was exponential. In one year and half BR seized the lead of the Brazilian market and by 1977 comfortably dominated it, with 35\% of the market share.\textsuperscript{56}

The gamble paid off and BR’s success was huge, with the move also making a lot of economic sense. Petrobras dominated its own market and controlled the oil cycle from top to bottom, from the well in Saudi Arabia to the customer at the pump in Rio de Janeiro. That dominance strengthened the company’s position at home and abroad and generated greater revenues that could help the company to support other less profitable, but expensive, areas such as drilling and research. Moreover, the BR success helped to provide consistency to the Medici administration’s rhetoric of rugged patriotism. The success of BR was a win-win situation for the government, which also strengthened Geisel and Ueki’s hand within the administration’s internal wars against Delfim and others.

\textsuperscript{55} Idem.
1.4 Consolidating the Company’s Infrastructure and Exploration

Since Petrobras fully controlled the downstream area in Brazil and the government could easily leverage capital abroad, its war chest was large enough to take steps towards the long term goal of granting Brazil oil self-sufficiency. For that goal to become a reality, Petrobras needed to invest heavily in both drilling and research. The aim was to find oil while simultaneously expanding the nation’s scientific capabilities. In working towards these ends Petrobras was extremely generous in providing resources for its technicians. The company was capable of establishing a global network of partnerships that helped the company to grow and mature at an impressive rate during the first half of the 1970s. Since its inception, Petrobras was fond of recruiting young technicians from the most diverse areas and providing them with access to the access best education money could buy.

The story of Carlos Sant’Anna and Edison Gueiros is emblematic of that philosophy. Both Sant’Anna and Gueiros came from humble backgrounds in the Brazilian hinterland and decided to leave the poor countryside in order to try their luck in Rio de Janeiro. Sant’Anna was a historian, but soon realized that a teacher’s salary would not be enough to sustain himself and his growing family. He decided to accept a lowly job at the Petrobras’ commercial department.

After years of study and dedication, he became part of Petrobras’ permanent staff and by the early 1970s would command the recently created DECOM, the commercial sector of the
company responsible for the important foreign oil purchases made for the whole country.\(^{57}\) Edison Gueiros was a mathematician who was so talented that he was sent to the United States in order to study statistics. Soon his abilities were so evident that he was poached from the Brazilian Statistical Institute (IBGE) to work for Petrobras in its early days. Gueiros grew with the company and during the Geisel period he was already controlling the financial sector of the company.\(^{58}\)

That same logic applied to the scientific corps of the company, composed of several geologists, chemists, engineers, and geographers. Petrobras created incentives for its scientists to write papers that would be internally analyzed and shared. There was an annual contest where the best papers would be published in a yearbook. The compendium of those works provide clear evidence of Petrobras’ level of advancement during the Geisel period and also demonstrate how the substantial input of resources had a direct impact upon the balance of power between the company and its competitors.\(^{59}\)

Innovative techniques were designed to control corrosion in storage tanks, to avoid oil that flowed from the deep sea from freezing, and to improve safety in new refineries. Yet most of the research was concentrated in the exploration department (DEXPRO), which was where the company designed and executed its playbook in order to discover viable new reserves for commercial exploration.

One of the major advances was the foundation of the Leopoldo Américo Miguez de Mello Research Center (CENPES), located on the Fundão island in Rio de Janeiro. CENPES new facilities were conceived in 1972 to become the main research center for Petrobrás, and was probably the crown jewel of the Geisel period at the helm of the company. The work produced at CENPES allowed Petrobrás to achieve a better understanding of its own sedimentary basins and focus on offshore technology that would be valuable in the future. The research center operated with modern IBM 360/65 computers for advanced calculations that were imported from the United States.

When most Brazilians were still seeing a simple telephone as a technological edge, Petrobrás was already ahead of 99% of other Brazilian companies with its state of the art technology. Collaboration with the United States also extended to the academia, where Petrobrás frequently sent scientists and technicians to Louisiana State University (LSU) and the University of Illinois. At LSU, Petrobrás personnel learned the most advanced techniques that were being applied in offshore exploration in the Gulf of Mexico. Geologists from the University of Illinois were constantly visiting Brazil from the late 1960s onwards and cooperating with Petrobrás’ geologists in identifying new areas suitable for exploration.

These partnerships delivered positive outcomes almost immediately. By 1972, the offshore platforms built by Petrobrás demonstrated an interesting evolution, since Petrobrás I rig could drill 3600 m beneath the sea soil and Petrobrás III rig could reach an impressive 7600

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61 Idem.
m. At the same time, Petrobras was already setting platforms in deep waters, close to 400m, something that was considered unfeasible by the oil industry.

The early days of exploration at the Campos basin benefitted from an increase in cooperation with foreign service contractors that were already operating in other offshore areas, especially in the North Sea. With the help of a diverse group of companies including IBM, Western Geophysical and McDermott shipyards, operations in the Campos basin started to become a reality by 1974. By the early 1970s, Petrobras was fully engaged in the work of mapping the seismic lines of Brazil’s continental shelf.  

The work of analyzing the sheer amount of data generated by Brazilian and American geologists was made possible by the use of IBM 360 mainframe computers and 2D seismic analysis made at Western’s research facilities in Houston. By 1971, the first jack up platform was installed in Campos, allowing the company to fully explore its first viable field in the area, the 1-RJS-A (100 million barrels). At the same time, the company was working in tandem with its downstream sector in the so-called “Thousand Days Plan”, whose goal was to integrate new terminals, pipelines and refineries allowing for a potential surge in Brazilian oil. Conducted between 1970 and 1973, the plan was inspired by the project management of NASA’s Apollo missions. As seen previously in this chapter, the surge in downstream al-

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owed Petrobras to be better positioned to provide to the oil derivatives so needed by the booming Brazilian economy.\textsuperscript{63}

Petrobras was also advancing in oil shale research, where it had developed its own extraction method called Petrosix. In the 1970s only the United States and Petrobras had feasible shale transformation techniques, and one of Petrobras’ wildest dreams during the Geisel tenure was to empower Brazil with its huge shale basins located mainly in the southern part of the country. Petrobras was also advancing fast in research on high sea platform structure, soil analysis, and well enhancing techniques. These advances and cooperative projects were pivotal in preparing Petrobras for the latter stages of its development, especially after the discovery of the huge Campos basin in Rio de Janeiro. However the problem was that in the early 1970s Brazil desperately needed domestic oil reserves, and the research would take a long time before it could blossom with time acting as a great constraint.\textsuperscript{64}

The partnerships with the United States in the realm of research were just one component of the rapidly expanding global network that enabled Petrobras to thrive. This was in spite of the preconceived idea that Petrobras was a pure national champion, built only with Brazilian endurance and brainpower. A closer look shows us a different reality in which Petrobras was a company that benefitted from a global profile, and through that profile even helped Brazil to open markets that had never been explored before.

\textsuperscript{63} Idem.
One example of Petrobras as a global actor could be seen in its cooperation with Japan to produce ocean tankers. At the beginning of the Miracle in 1968, Brazil was dependent on foreign tankers to import its oil. That meant Petrobras had to pay more for the long haul from the Middle East to Petrobras unloading stations situated at several points along the Brazilian coast. The company desperately needed new tankers for the national fleet (FRONAPE) and the Brazilian shipbuilding industry was not in any condition to fulfill Petrobras’ demands. In looking for better prospects abroad, Petrobras found that Japanese shipyards offered better prices and its ships were excellent in quality.

During its own postwar boom, Japan overtook the United States and even Great Britain to become the largest shipbuilder in the world. Given the fact that Brazil’s trade with Japan represented only 1.6% of its total foreign trade before 1970, the purchase of tankers seemed to be the perfect deal in order to expand trade with the Asian powerhouse. Petrobras decided to organize a contest between three major Japanese shipbuilding companies, where the Ishikawajima Shipbuilding Co. prevailed where two tankers were bought for US$ 360 million. Even better was the fact that the Japanese Eximbank was ready to finance 70% of the value following a 30% down payment made by Petrobras.

Itamaraty was so pleased with the deal that it gave an incentive to arrange future contracts with Ishikawajima for an extra 1,000 million tones in tankers with the same company.

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66 BREASEMB Toquio para a Secretaria de Estado. June 29th, 1972. Assinatura de contrato entre a Petrobras e a Ishikawajima and Harina company. 663.63 (B46) (E10) Pp.1-3
67 Idem.
The deals for the tankers proved to be an example where Petrobras, Brazil, and a foreign partner established a mutually beneficial relationship. After Petrobras opened the big deals with Japan, other Brazilian companies soon followed and Japan became more open to importing Brazil’s raw materials such as iron and sugar. By 1976, when Geisel visited Japan as president of Brazil, Japan’s percentage of Brazilian foreign trade had soared to more than 7%, vindicating the Brazilian diplomatic strategy of diversifying its trade partners and fostering its economic strength at the same time.68

Another important partner for cooperation with Petrobras was the United Kingdom, a leading provider of steel plates and platform construction. In spite of the fact that Brazil was becoming a strong steel manufacturer during the postwar period, quality was another matter. Petrobras technicians frequently complained about the low performance of the UNIMINAS steel under tough environments or in precision tasks. Given Petrobras needs, British Steel seemed to perform a better job in producing durable steel plates for all sorts of activities, from pipelines to platforms and tanks.69

Another frequent British partner of Petrobras was the McDermott shipyard in Scotland. McDermott was a leading company in building platforms for the North Sea that required a similar depth to the areas Petrobras was operating in Brazil. McDermott produced several platforms for Petrobras that were used all along the Brazilian coast. The partnership turned sour when one of the new platforms sunk during a storm while in transit across the Atlantic

Ocean. With the loss of millions of dollars in a single platform, Petrobras decided to change its supplier, but still remained reliant on British shipyards. The French company Schlumberger was also instrumental in helping Petrobras to develop its new offshore platforms in Sergipe, using its advanced techniques to scan the seabed looking for promising new areas of exploration.

In essence, Petrobras relied on foreign partners to allow the company to improve on the technical side. Certainly the most important cooperative relationship was that involving oil, as one would expect. The technical core of such a precise business as oil extraction was of great importance in the industry’s development. These cooperative pacts also demonstrated other insights that seem worth exploring.

Firstly, when developing world companies have enough capital and foreign expertise, they can thrive fast. This means trade, because only more open trade could foster such development, and Petrobras benefitted from special tax regimes for the importation of oil and sophisticated machinery. Secondly, despite all of its patriotic speeches extolling the virtues of the national industry, the military were ready to be pragmatic and open to a more pro-market and free trade attitude when circumstances were convenient.

71 “Furos otimistas.” Veja, November 6th, 1974. Veja has been used in this case to demonstrate the mix between desperation and optimism that surrounded Brazil’s first offshore findings.
1.5 Accidents and Development Hurdles

During 1969 and 1974 Petrobras followed the logic of the Miracle with breakneck speed, and that intense pace of development was about to bring many problems in the form of accidents and environmental damage. The Carmopolis terminal in Serpige was one such case. Once a pristine beach that attracted tourists from the southeast looking for sun, during the 1970s the area was plagued by constant oil leaks from Petrobras installations. The fishermen’s community that survived there for centuries was suddenly struggling with the Pampo fish, its main source of income, simply disappearing. On top of that, tourists were also opting for other coastal spots in the northeast, far from the oil stains that were covering the sands of the once pristine Sergipe beaches. The state government fined Petrobras around US$ 160,000, but the company denied all responsibility and did not change the standards of its procedures.⁷²

Sao Paulo, the industrial engine of the country, was also struggling with the presence not only of a large auto fleet but also with the new functioning refinery of Paulinia and the expanded Cubatao. Sao Paulo already had 10% more sulphur in its air than was recommended by the World Health Organization.⁷³ But if in Sao Paulo or Aracaju the situation was bad, in Cubatão things were even worst. The city, close to the Paulista seashore, was the home for the mighty Presidente Bernardes refinery, one of the largest in Brazil. By the early 1970s the

⁷² “Culpas do Petroleo”. Veja, July 9th, 1975. Veja has been used in this case to demonstrate how oil was affecting the environment in Sergipe state.
⁷³ “Na qualidade ma”. Veja November 25th, 1974. Once again, Veja is used to demonstrate the link between oil and environment in Brazil.
first complaints starting to receive notice in the national media, even during a time of extraordinary censorship.

People in Cubatão were born with several congenital health problems, such as malformations and respiratory allergies. Chloride levels in the water were so high that river life was already dead, and some of the favorite weekend spots in Cubatao were destroyed. The federal government, when met with inquiries about that stark situation, provided only platitudes to the population of Cubatao. They asserted that this was “the price of development” and that filters and other counter measures were simply too expensive for a developing country like Brazil. Petrobras proved that it was not only ruthless in engaging in combat with Esso or Shell, but that when necessary it could turn against its own people, where in the lavish propagandas of the Medici administration they called “our dear shareholders”. The pollution problem in Cubatao would only get worse, and after the opening of democracy the situation would be dealt with in a proper way. But here, the “shareholders” did not benefit from voting rights.74

In 1972, the Duque de Caxias refinery, one of the largest in Brazil, was subject to a huge explosion caused by a gas leak. Before the alarm could be heard, one Petrobras worker was passing by in his Jeep and that was enough to ignite the explosion. Flaming shrapnel flew over the shantytown of Campos Eliseos, where the entire population had to be evacuated given the amount of debris that was raining down upon and destroying their houses. The refinery

74 “O limite inaceitável da poluição”. Veja, July 12th, 1972. Veja is used here to demonstrate the link between oil and environment in Brazil.
was in flames for several days before the fire was controlled. Once again, Petrobras met disaster with silence; no further comments or compensation package for the favelados.

What is important to emphasize here is that breakneck demand for expansion inevitably brought accidents and environmental damage. The main issue was that in a dictatorship, the Brazil’s judicial system could not provide citizens with the real chance of redress, as happened with the American Gulf community after the BP oil spill in 2010. Brazil’s case during the 1970s resembled more the situation that we see today in China, where the rapid pace of development under an authoritarian political system gives slight chance of redress to its citizens. But, it works well for the state companies that indulge in government protection. Most of these accidents have been forgotten by mainstream Brazilian historiography that tends to see Petrobras very favorably. A closer look into the nature of those accidents and how local communities were affected represents a significant opportunity for studies of the environmental history of Brazil in the near future.

Despite its technical prowess, the complete dominance of the downstream sector and its failures and accidents, Petrobras’ major problem was clear; it was an oil company that had no oil. It was certainly one of the world’s most powerful and influential buyers, but that was not enough for a continental country whose population was 90 million strong and growing at a

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75 “Fogo na Refinaria”. Veja April 5th, 1972. This is an important Veja story on a deadly accident at a Petrobras refinery., which demonstrated that often the expansion of the downstream sector was not followed by proper safety procedures.

pace of more than 2% year.\textsuperscript{77} Certainly it was not enough for a country whose economy was growing 14\% by 1971, and whose intense urbanization process and lifestyle demanded more and more oil.

There was huge public disappointment with what was perceived as Petrobras’ inability to find meaningful oil reserves despite 15 years of intense searching within the country. Brazil’s few reserves were onshore in the states of Bahia and Sergipe, small fields that produced 180.000 bpd at their peak in the mid-1960s, which in 1968 could cover 50\% of the Brazilian oil needs.\textsuperscript{78} The problem here was that by 1969 these few wells were declining in productivity, falling closer to 110.000 bpd. Meanwhile between 1966 and 1974 Brazilian consumption soared from 400.000 bpd to 800.000 bpd. In 1966 oil was tied with wood as the main source of energy for Brazil; by 1970 oil had far surpassed wood, contributing to more than 40\% of the nation’s energy mix.\textsuperscript{79}

Petrobras was also spending heavily in oil exploration, and while the numbers are sometimes conflicting, an accurate estimate can be made that around 40\% of the company’s revenues from 1953 until 1975 were used in the desperate attempt to find oil in the Brazilian territory.\textsuperscript{80} That gives an average investment range from between US$ 200 and 300 million each year, a commitment staggering in scale, especially for a developing country. Historiography

\textsuperscript{77} International Monetary Fund. (1972) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1972 Article XIV consultation. SM/72/124. Pp. 8-79.
\textsuperscript{79} Idem.
on the topic tends to make two main affirmations about that fact; the first is that Brazilian planners were oblivious to the oil issue and only paid attention to it when the first shock came in 1973. The second was that oil was the Achilles heel of the Miracle, destroying the best economic chance that Brazil had until the coming of the commodity super cycle of the early 2000s. The goal in the second half of that chapter is to put to test those assertions and also understand the real impact that the 1973 shock had over the Brazilian economy and what was Petrobras’ answer to the impending crisis.

Historians, international relations experts, and economists have observed, that the Brazilian government was oblivious to the potential impact upon the country of a sudden oil shortage. Its critics affirmed that people such as Medici, Delfim, and Geisel were unwilling to see the pitfalls that laid ahead of them as long as the good times were still rolling. And keeping the good times rolling was of paramount importance for an authoritarian regime that only found some popular legitimacy during the Miracle, and after spending great political capital upon repression and recession during its early years. However, the reality is slightly different.

A more accurate way of seeing the issue is that the upper echelon of the Brazilian regime was well aware of the problem presented by the country’s apparent shortage of reliable oil

sources, but they gambled with the consequences anyway. Carelessness was not a characteristic of men as practical as Geisel, Delfim, and Ueki. Each one understood the weaknesses of the region and hoped that in the end the perfect international scenario of cheap oil, cheap foreign borrowing would simply continue for the time being. Delfim needed cheap capital from abroad and Geisel needed cheap foreign oil and both deeply desired the good winds that were carrying the Brazilian economy would remain strong. Even so, they predicted less favorable scenarios.

Delfim had the luxury of not having to worry about ongoing foreign investment and credit, since capital from the Eurodollar market continued to flow to Brazilian accounts. But, Geisel and Ueki could not afford the same luxury, and by 1971 they understood the rosy oil market from the 1960s was ending fast and a new era in oil history was about to begin. Until the early 1970s the oil market had been controlled in an oligopolistic and colonialist way, even though colonialism had been fading away since 1945. A few companies from the United States, Great Britain, and France controlled almost the entirety of the world’s oil supply and distribution. Huge areas of the Middle East and South America were under their control, not to mention their dominance in their own home countries. Since those companies had the virtual monopoly of global oil for themselves, the market was stable and prices were fixed at low levels in order to foster robust sales.83

This was a great deal for large-scale importers like Brazil, since low and stable prices enabled fast expansion within a developing country fond of economic planning. In essence, it

was a beneficial deal for everybody except for the producing nations that for a very long time felt cheated by the Majors’ *modus operandi*. Given the high stakes involved, a wide spread revolt was simply a matter of time. It started in Venezuela in the 1940s when the companies were forced to abide by the first 50-50 profit share deal.84 Suddenly, Venezuela was spreading its “revolutionary” know-how to countries in the Middle East and countries like Saudi Arabia, Iran, Iraq, and Kuwait were becoming bolder and more demanding.

In 1960, the major oil producers were gathered in one association under the acronym of OPEC85. For several years OPEC seemed harmless and undemanding and the Majors perceived it as a minor player without meaningful power.86 However, under the leadership of the new Saudi oil minister, Sheikh Yamani, the game was about to change. Yamani was young, charismatic and westernized and knew his enemy from within. On top of that, more Arab nations were discontented with the American posture of badly disguised neutrality in the conflict between Arabs and Jews.87 In 1967 the Arab nations implemented its first oil embargo against the West in order to call attention to their plight during the Six Days War, but it did not achieve the expected results. In the end, Western nations still had the necessary spare capacity to be the “supplier of last resort”88

85 Stands for Organization of Petroleum Exporting Countries.
From all this political instability, it was becoming clear that the established oil order was crumbling, and for Brazil, something had to be done urgently. Mario Gibson Barboza, Medici’s foreign secretary, decided with Geisel to keep moving with a policy of diversification of Brazil’s foreign partners. For a developing country like Brazil it did not seem wise to have almost 80% of its trade with the United States and Western Europe. It was prudent to diversify, to explore new possibilities, and to affirm a new strong and independent Brazil.

Barboza was clearly inspired by the precedent set by San Tiago Dantas and Afonso Arinos during their tenures as Brazil’s foreign secretaries in the early 1960s. Dantas and Arinos understood that Brazil’s possibilities were somewhat constrained by the bipolar logic of the Cold War. And they also believed the main problem surrounding Brazil’s development was the fact that the country had to run perennial trade deficits because it exported agricultural commodities to developed nations and had to import manufactured products that had higher aggregated value.\(^89\) The works of Raul Prebish and Celso Furtado at the Economic Commission for Latin America and the Caribbean (ECLAC) heavily influenced Dantas and Arinos, where they formulated and provided substance to the idea that the trade imbalance was the main cause for Latin America’s slow economic development.\(^90\)

Their powerful intellectual legacy influenced an entire generation of academics and diplomats who understood that their mission was to address the problem of the terms of trade.

Mario Gibson Barboza was not oblivious to that and followed some of the directions that

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were already set up by Arinos and Dantas. Barboza started to accelerate the process of diversification of Brazil’s trade partners, initially moving towards Asia and the Communist Bloc. Brazil was still mainly selling raw materials such as coffee, sugar, and cocoa to these trade partners. Other blocs were really promising in offering Brazil what it really wanted, a growing market willing to buy its manufactured exports. In that sense, Latin America, Africa, and the Middle East represented the best opportunities for Brazil to achieve its goals.

In the case of the Middle East there was the prize that was even beyond trade, which was securing an abundant oil supply in exchange for better contracts and even some exploratory wells.91 By the late 1960s Petrobras and the Foreign Office (Itamaraty) started to cooperate in that area. On several occasions Petrobras worked as the spearhead for Itamaraty. Petrobras alone was already signing deals for wildcat wells in Iran, Iraq, Algeria, and Madagascar. Petrobras was also working as an informal trading company, by exporting military equipment produced by the Brazilian company Engesa.92

Itamaraty, by its turn, was underrepresented in that area of the world. The Brazilian Foreign Office only had important embassies in Cairo, Israel, and Lebanon. None of these was really useful in meaningful oil deals except for Cairo, because Brazil had tried to develop major oil deals with Egypt in the 1960s. The country failed to deliver on its promises and the

deal was ultimately botched by the Egyptians, who were not able to supply the crude quantities predicted in contract.\textsuperscript{93}

There were plans for a more aggressive official diplomacy towards the region, but given the scale of Brazilian business moving everywhere, the efforts were far behind schedule. The Brazilian embassies in New York and London served as important points for intelligence collection regarding the global oil market. The Brazilian ambassador to the United Kingdom, Sergio da Costa, fostered the interesting habit of frequently holding talks with the executives of British Petroleum and more importantly, developing close contacts with the ambassadors of Saudi Arabia and Kuwait. In spite of all this help, Petrobras was doing the hard work in opening up the Middle Eastern oil markets for Brazilian manufactured exports. But soon new circumstances would obligé a closer cooperation between Petrobras and Itamaraty, with important consequences for the Brazilian oil strategy.

The year of 1972 marked the watershed for Brazilian oil diplomacy, the Miracle, and the oil market as whole. Brazilian Historians tend to emphasize the importance of the First Oil Shock in 1973, but often forget how the 1971 deal between the Majors and OPEC was also pivotal in emboldening the producing nations to be more assertive in the pursuit of their interests. It all started when in 1971 President Richard Nixon unpegged the Dollar from gold, officially ending the Gold Standard that had been the equilibrium point for the world economy for more than 150 years. This policy caused a major Dollar devaluation, which really hurt the Arab oil exporters, since their purchasing power was suddenly eroded. As an answer to

\textsuperscript{93} Idem.
that, OPEC demanded oil prices be increased as a form of compensation. But Yamani saw these new negotiations as an opportunity to demand even more from the Majors, in fact, the Sheikh envisaged a unique opportunity to tilt the whole game in their favor.94

The Brazilian government was closely following the development of that situation with great concern. The government understood that a steep price increase in oil would have catastrophic consequences for the Miracle, which was already showing its first signs of fatigue. By 1972 the Brazilian economy was clearly overheating, with the cost of living increasing at least 20% each year when the official inflation was around 15%. Consumption was already 80% of the entire economy; savings and investment were at a meager 18.1% of GDP, which helped to fuel inflation to even higher standards.

The imports of manufactured goods and oil held the greatest responsibility for a trade deficit that was at a staggering US$ 2.5 billion. Government expenditures at the federal level tripled after 1970 and debt service now stood at 30% of the export revenues, an increase of 10% in only two years. In his annual meeting with the IMF advisory board, Delfim and his team affirmed that President Medici would implement strong inflation controls and that better coffee crops next year would bring increased export revenues. But still the IMF advisors judged that Brazil was incurring a great risk with the level of foreign debt that had been built

up, although Brazil seemed to be more than capable of servicing its debt given its growth pace.\textsuperscript{95}

Despite the fact that the Brazilian regime appeared secure and confident before the IMF and its own population, this façade would not stand for very long. Internally, the mood was already souring. Ambassadors Araujo Castro (Washington) and Sergio da Costa (London) expressed their concerns that they could not extract any meaningful information from their friends in the Majors.\textsuperscript{96} Speculation was rife that global oil prices could go above US$ 3.00/barrel by the end of the negotiations. Brazil at that moment was importing close to 500,000 bpd at an annual cost that oscillated between US$ 400 to 500 million. A country that was already running on huge trade deficits and needed foreign capital to foster its balance of payments could not afford such a change, the government had to develop a new plan that would be both nimble and comprehensive.

By the middle of 1972, more than a year before the First Oil Shock, Brazil was already in a secret crisis mode with the sole objective of offsetting the effects of the increasing prices and trying to save the Miracle at all costs. During such a perilous moment being close to Medici was an edge that Geisel had above the other members of the cabinet. Geisel devised the idea that the time had arrived for Petrobras and Itamaraty to finally join forces and estab-

\textsuperscript{95} International Monetary Fund. (1972) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1972 Article XIV consultation. SM/ 72/124.. Pp 3-57.
lish a full scale diplomatic and economic offensive towards the Middle East. There was absolute need for their policies towards the region to be fully integrated and from now on the diplomats from Itamaraty’s economic department would coordinate their actions with Petrobras executives. Each embassy would work as an advanced trade post for Petrobras, helping the company to understand the local cultures that it had to deal with and also being instrumental in fostering new deals that were beneficial either to Petrobras or to Brazilian manufacturers that traded their products through Petrobras.

In order to organize the course of action to be followed, a meeting between Petrobras and Itamaraty was set at the beginning of August in Rome. The Italian capital was the perfect spot for such a gathering, since it was far away from Brasilia or other more central diplomatic post such as London or New York. Their goal was not to attract attention, especially from the press. That forgotten meeting at the peak of the dreadful Roman summer would become the master plan that would shape Brazil’s oil policies for the next 15 years. But at that time, none of the participants had any idea about the historical moment they were about to witness and participate in. The meeting was organized as a seminar where a presentation by the Petrobras team would be followed by the Itamaraty team’s response. Geisel was not present at the meeting for unknown reasons, but if secrecy was a must, his presence would not have helped a lot.

The same holds true for the absence of Gibson Barboza, the Brazilian foreign minister. Ambassadors Araujo Castro and Sergio Costa could not be present due to commitments with-

in their own embassies. The main representative for Petrobras was Shigeaki Ueki, who made the longest presentation. For Itamaraty, the chief of the Trade Department, a veteran diplomat Paulo Batista Nogueira and his assistant, the 32 years old Luis Felipe Lampreia, were there to bring Itamaraty’s suggestions to solve the oil conundrum.

In the meeting’s memorandums, it was affirmed that Petrobras had to fully embrace joint ventures with the new state oil companies worldwide that were the vital key to vast supplies of oil in the future. The only way to enhance those partnerships and achieve the goals they needed was to adopt an aggressive strategy that would relentlessly court new partners in Africa and the Middle East. Ueki even suggested that Petrobras’s model should be inspired by the behavior showed by ENI (Italy) during the times of the legendary Enrico Mattei98, when the Italian company became a master in securing better deals and circumventing the Majors complete dominance of the oil market.99

With that strategy in mind, the new Petrobras subsidiary called Braspetro was responsible for finding and exploring oil resources abroad. The subsidiary was created by Geisel in 1971 and approved by the Congress under the law 2004/71. Again, people at the Petrobras board feared that a Brazilian company exploring oil abroad would open the flank for the Majors to demand reciprocity, which meant the end of the Petrobras monopoly of Brazilian reserves. In spite of these concerns Geisel and Ueki decided to go ahead, arguing that Petrobras needed a new subsidiary that was able to capitalize on the work that was being done in Iran, Iraq, and

Algeria. Braspetro would be responsible for finding abroad the oil that had not yet been found at home.\textsuperscript{100}

In Latin America some prospects sounded very promising, especially the joint venture that Petrobras had established with Tenneco oil (Colombia), where it held a 50% share. It was one of the first major operations to have been conducted by Braspetro and the company put a lot of faith that it could really pay off. Another promising nation that seemed to be open to a deal with Brazil was Ecuador that by the beginning of the 1970s was being dubbed “the new Kuwait,” given the potential of its reserves.\textsuperscript{101}

Ecuador had approved a new law making fossil fuel exploration easier for foreigners; it was clearly an easy way out for the cash strapped Latin American country. Ecuador founded CEPE, its own state company whose objective was to reduce the influence of Chevron and Texaco in the country. Therefore Petrobras’ goal was to sign a major joint venture with the newly founded CEPE, so Brazil could at least take out 50,000 bpd. However, cooperation from Bolivia and Peru were a huge source of disappointment for Petrobras, since in spite of several attempts neither of the countries were willing to participate in the kind of deal that Petrobras was interested in. By 1972, Petroperu was only willing to sell at US$ 3.20, which was unacceptable for Petrobras The Peruvians did not show any sign of willingness to lower their price to US$ 2.70, which made a solution even harder to reach.\textsuperscript{102}

\textsuperscript{101} Idem.
\textsuperscript{102} Idem.
Going in the opposite direction of Ecuador’s fossil fuel law, Bolivia was implementing rules that made life for foreigners almost impossible.\textsuperscript{103} Since 1970, President Medici was engaged in persistent oil diplomacy towards Bolivia, but with no results. Not even the rise of Hugo Banzer to power, considered to be “pro-Brazilian,” made any difference in moving a new deal forward.\textsuperscript{104} The Petrobras board complained that it was easier to buy Bolivian oil in Chile than actually buying it in Bolivia. Chronic political instability made any deal impossible, they complained.\textsuperscript{105} Carlos Sant’Anna from Petrobras regretted what he saw as a lost chance for Brazil and Bolivia, since the package was extremely favorable. But nationalistic issues and the opposition of Bolivian union leaders killed any chance of a comprehensive deal.\textsuperscript{106}

In Africa, the most promising Brazilian partner was Sonatrach, from Algeria, whose situation was debated in a previous memorandum sent by the diplomat Mauricio Magnavita. He was one of the foremost Brazilian experts on the Middle East and also a presenter during the Rome seminar. The Algerian oil was light, which was very good for the Brazilian refineries. Sonatrach was on a collision course with the French company CFP, which was seen as a good moment for Petrobras to advance by presenting herself as representing another emerging country that was willing to cooperate with Algeria’s development.

\textsuperscript{103} Idem
\textsuperscript{104} A confiança de Medici Veja February 4th, 1970 p. 28. Veja is used here to demonstrate its interest in Brazil’s foreign affairs, especially when connected to energy strategy.
Sonatrach also had recently built two refineries, which was a sign of the company’s prowess. The timing was right for Braspetro to advance from mere wildcat wells to a full-scale partnership with Sonatrach. Brazil was also trying to sign more comprehensive deals with Nigeria and Madagascar. Nigeria was subjected to a long courtship from the Brazilian government, with a visit to Lagos one of the culminating moments from Gibson Barboza’s African tour at the beginning of 1972. However even a draft of a possible deal with the Nigerian state company NNOC failed to emerge. In Madagascar, Braspetro joined Chevron in the expansion of their exploratory wells in that country, where they were hopeful they could at least find something.

In Africa, Egypt and Angola were considered to be a waste of time. By the late 1960s, Petrobras was even importing a fair amount of Egyptian oil. In the end the Egyptians could not keep up with Petrobras’ ever increasing requirements and the Brazilian company suffered a US$ 30 million loss in oil purchases that were never delivered. Angola’s case was a bit different, since Petrobras and Itamaraty recognized that the country had excellent oil potential, but the violent war against Portugal, a historical ally of Brazil, did not put Braspetro in a position to make any investments there. The wars that Portugal was conducting against Angola and Mozambique were among the toughest diplomatic challenges faced by Brazil. Its whole African initiative and credentials as a Third World leader were tarnished by its staunch

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109 Idem.
support of Portugal. The conservative posture of Brazilian diplomacy became a huge nuisance for Petrobras, since other African nations, such as Nigeria, were using extended talks about oil to pressure for a change in the Brazilian position regarding Portugal.\textsuperscript{110}

In the Middle East the situation was interesting for Brazil, since some partnerships were bearing fruit even earlier than they could have imagined. Petrobras began investing heavily in Iraq in the late 1960s, when the company’s technicians were able to find one of the country’s largest oil fields. Even when Iraq was facing huge opposition from the Majors to the Iraq Petroleum Company (INOC), Geisel decided to give a vote of confidence to Iraq and even improved Petrobras’ purchases with the newly formed Iraq state oil company (INOC). Soon, Petrobras was given access to areas for oil exploration by the Iraqi government, with some success.

This was living proof that Petrobras did have the expertise to make substantial oil findings, but the real issue was that finding oil in Brazil was not as easy as finding it in Iraq. INOC allowed Petrobras to buy the oil it found with a US$ 0.20 discount per barrel. Nevertheless this friendship did not come cheap; Braspetro was investing US$ 12 million in an uncertain venture in exploratory fields, but they had to maintain the goodwill of the Iraqis, therefore that risky investment had to be made. Iraq was slowly getting close to what Petrobras

saw as an ideal arrangement, since the country was granting more contracts to Brazilian construction companies and was interested in buying more Brazilian manufactured products.\textsuperscript{111}

Iran and Saudi Arabia also appeared promising and Brazil was already buying a respectable amount of oil from the Majors that operated in both countries. However, some obstacles were ahead since Iran and Saudi Arabia did not show the same enthusiasm for a closer partnership with Braspetro. On top of that, Iran and Saudi Arabia were both buying most of the manufactured products they needed from the United States, therefore Brazil had lesser leverage in this situation. Given the importance of the Saudi and Iranian oil supplies to the Brazilian mix of imports, any deal had to be reached in order to offset the severe losses that Brazil was sustaining in its trade with both nations.\textsuperscript{112} Kuwait seemed to be a better prospect, since their national company (KNPC) was open to a joint venture and even offered an area that belonged to Hispanaoil. The area was evaluated by the Braspetro technicians, but was considered to be of lower quality. Despite this setback, Petrobras was willing to increase its purchases from KNPC and believed that Brazil had to have a close cooperative relationship with Kuwait.\textsuperscript{113}

In the Rome meeting it was also agreed that Petrobras had to keep all doors open in the Middle East, even with countries that were prone to severe political instability, such as Iraq. The general view in the oil business was that OPEC was divided in two groups, the Conservatives (Saudi Arabia, Iran, and Kuwait) and the revolutionaries (Libya, Algeria, and

\textsuperscript{112} Idem.
\textsuperscript{113} Idem.
Iraq). There was a consensus that Brazil had to make the bold move of becoming close to the “revolutionary nations” since they offered the best trade prospects. The long-term goal was to emulate the strategy implemented by the United States and Western Europe on a smaller scale, which was to increase the “recycling” of Petrodollars in their own banks and foster the export of their manufactured products.\footnote{09/08/1972- Estudo apresentado pela embaixada do Brasil em Argel, autoria do secretario Mauricio C. Magnavita. Seminário sobre petróleo. Pp.1-13.}

Brazil also intended to keep its sales of oil derivatives to South America high, even if that meant cutting Venezuela’s market in the region. Deals with Argentina, Uruguay, and Paraguay produced a profit of US$ 60 million for Petrobras. Alliances with other state companies from importers such as Dexpro (Germany), Japex (Japan), and OMV (Austria) were considered to be pivotal and also allowed for the sharing of intelligence as well as risks in difficult joint ventures. The embassies in London and Paris, where Petrobras had established an international presence, would allow for the company to find suitable European engineers and technicians that could be employed in future joint ventures in the Middle East.\footnote{31/08/1972. Memorandum para secretario geral da politica externa. Seminario sobre petróleo, Roma, 9 a 12 de agosto. Pp.1-13}

Finally, at the end of the meeting Ueki emphasized to the diplomats that in his planning there was no option for oil. Brazil had to obtain it abroad at all costs because the prospects at home were unfavorable, in spite of investments of US$ 180 million in 1971. From now on they were a single team, and all Brazilian embassies had to send to Brasilia their own reports about the oil situation in the country in which they were located and how a given diplomatic post could cooperate with the overall strategy. This alliance between Petrobras and Itamaraty
would become a permanent feature in Brazilian foreign affairs. Both areas of the state would deeply and genuinely cooperate with one another, which was unusual within the Brazilian government where very often the state companies were jealous and even clashed with one another.\footnote{FGV CPDOC. (1988) Depoimento Carlos Sant’Anna. Rio de Janeiro. Pp. 3-40.}

The meeting in Rome might have been one of the most important in Brazilian oil history, since it was decisive in shaping Petrobras’ strategy for the new era in the oil market that was about to be dominated by the producers and its newly formed state companies. This plan, set up in August of 1972, was followed with minor changes after both oil shocks affected the Brazilian economy. In essence, the strength of the plan was that it was realistic. All the actions emphasized here were part of a course that Brazil had the all the conditions to follow. The civil service was aware that the market was rapidly changing and was about to enter a new era where the sellers would have the edge. The Brazilian leadership internally shied away from the nationalistic tone that marked the Medici administration, instead setting a more pragmatic tone. They were also aware they were about to face fierce competition from other developed nations, necessitating their investments in other countries, including unstable ones like Iraq.

In general terms, the plan was a victory for common sense and pragmatism, two of the main features of Petrobras under Geisel’s command. There were two aspects that were not contemplated by the seminar and these would eventually come to compromise Brazilian plans. Firstly, the team believed that the Arabs were unlikely to use oil as a weapon again, as
they had done in 1967. Secondly, they failed to consider the amount of capital necessary to develop all of these projects at once, given the fact that Brazil was deeply dependent on foreign capital for all of its major projects, and the debt burden had been getting worse since 1970. Moreover, at no point was the possibility of rationing oil mentioned in the meeting.

The idea of rationing was anathema to Medici and Geisel, because they understood what that meant. The Miracle, the victory in the World Cup, and the relentless prosecution of the radical opposition “pacified” the country and made the military quite popular, especially with the middle class. Rationing oil would mean the lavish westernized lifestyle that a few Brazilians had started to afford would be gone, and if their prosperity should come to an end, claims for a return to democracy would certainly resurface.

Geisel and Ueki also clearly understood that even if Brazil could diversify its energy mix in the near future, oil policy had already been set by Getulio Vargas and Juscelino Kubistchek. A radical turn against oil or in favor of diversification would take years to bear fruit, and the Brazilian junta did not have time in abundance. Since changing course was structurally and politically unfeasible, the only option was to be proactive and rational, so that the coming effects of the Piercy-Yamani talks could be lessened and the Miracle could be kept afloat.

In September 1972, Delfim Netto was also in Rome, this time for an IMF gathering of all finance ministers from its member states. Delfim, the ultimate globetrotter, was very close to

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the French finance minister, Valery Giscard D’Estaing. During a break in the meetings Giscard told Delfim that he was really worried that the Arabs would raise the oil price up to US$ 6.00/barrel after the Yamani talks. Delfim was clearly disturbed with such a terrible prospect, understanding what it meant for Brazil and above all, for himself.118 Delfim was considered to be the Miracle’s maestro, the virtuous genius who pulled the economic strings with perfect control. He had become a national celebrity and a coveted guest at elite global events. It was the perfect life. His only hope was that the powder keg upon which the Brazilian economy was sat would not explode during his tenure.

The economy was already running off the tracks, sinking under the weight of its own imperfections. Inflation was eating away at the income of average Brazilians on a monthly basis and threatened to spin out of control very soon. Brazilians were already struggling with minor shortages of products in supermarkets and a growing sense that things were starting to go wrong was looming among the citizens of the Brazil’s largest cities, Rio de Janeiro and Sao Paulo.119 In a rare show of democracy, Delfim Netto went to the Congress to answer senators’ questions on issues like inflation and economic growth. This was certainly a moment that the Finance Minister did not enjoy as he was “grilled,” even by senators who supported the regime.120 Delfim understood he had to act and confront Geisel about the oil issue

that could destroy the other two pillars of the Miracle, controlled inflation and abundant capital.

By October 1972 the Piercy-Yamani talks were coming close to an end. After several months of intense and often chaotic negotiations, Yamani achieved a huge victory for the producers, but also an especially great success for Saudi Aramco. The Saudis would gain gradual ownership over their company until reaching the threshold of 51% as majority shareholder of Saudi Armco. The process was to be concluded by 1983, with the Majors receiving full compensation for their shares. Kuwait was also moving in a similar direction towards Gulf Oil and British Petroleum. Libya and Iran also made some gains, which resulted in greater state participation in the foreign companies oil businesses in those countries. The tide was changing in favor of the Middle East producers.\textsuperscript{121}

Soon KNPC would have control of the entire Kuwaiti oil industry. But Yamani had the difficult task of having to deal with Iraq, Algeria, and Libya, countries that were following a more rebellious path. Sheikh Yamani understood the Arabs were not getting a fair share for their oil, but at the same time he could not alienate himself from the consumer countries, especially the United States. In the end his two main goals were achieved. A reasonable price increase was agreed to as compensation for the Dollar devaluation of 1971 and the Majors conceded gradual transfer of ownership to the Saudis.\textsuperscript{122}

\textsuperscript{121} Skeet, Ian. 1988. OPEC: twenty-five years of prices and politics. Cambridge: Cambridge University Press.p.52
The impact of those changes to Brazil was fully analyzed in a memorandum written by Luis Felipe Lampreia. In a rather tense tone, Lampreia reaffirmed the initiatives discussed in the Rome seminar the previous August. The Yamani-Piercy talks meant the Brazilian policy towards the Majors would have to change fast. In 1971, of the 151 million barrels that Brazil imported, 70% came from the Majors. Brazil was importing two thirds of its oil from the Middle East. Saudi Arabia was responsible by one third of the total oil volume imported from the Middle East. Petrobras was paying the Majors an average price of US$ 2.55, which was US$ 0.15 cents under its break-even point, putting the company in a comfortable position of being able to provide Brazil with a steady supply of oil while making a reasonable profit. Lampreia expected the benchmark oil, the Arab Light, would jump from around US$ 1.80 (1960-1970) to more than US$ 2.00, which for Brazil it meant its oil imports would become 10% more expensive in 1973.123

Behind all the numbers, what was really worrisome was not the previously feared price increase, but the change in ownership. The whole Petrobras purchase system was based on the notion that the Majors would always be there providing plentiful and affordable oil supplies to Brazil. For a long time, Petrobras did not even bother to go to the producers to offer

123 25/10/1972. Memorandum para Secretario geral, adjunto e substituto para relações econômicas. Petroleo, elevação dos preços internacionais. 663.63 (00) P3
14/10/1972. Secretaria de Estado para BRASEMB Washington. Petroleo. negociações para a Participação. 663.63 (00) P 3
deals, rather the Majors came to Rio de Janeiro and bid in an annual auction made by Petrobras.\textsuperscript{124}

This memorandum demonstrated that moving closer to the future owners of Saudi Aramco was a mandatory task. There was another pivotal issue to Brazil that was brought out by the memorandum, which was the fact that Petrobras could not pass the 10\% price increase straight to consumers, since it would have undermined President Medici’s fight against inflation. In 1972 Brazil was also facing price constraints from other imported staples the country required, such as wheat. Brazil could not afford a reduction in its imports of oil or wheat, given that GDP was expected to grow between 12\% and 14\% by the end of the year.

Expansion had to continue moving forward, no matter the cost. Cutting its imports of oil, wheat, machinery, and capital would have meant the end of the Miracle, an outcome the regime could not afford. The solution envisaged by the government was a system of subsidies for wheat and oil. In the case of Petrobras, it was a rather ingenious, but also dangerous system. Brazil borrowed money from foreign banks, which the Brazilian Central Bank passed on to Petrobras as a “loan” to cover the subsidy.\textsuperscript{125} In 1972 this sounded like a brilliant scheme, but the steep price of this policy would later become apparent.

In essence, Brazil had to approach the Arab governments with a greatly expanded pro-Arab policy. This was problematic, given Brazil’s historic support of Israel. Over time, Bra-

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zil realized that a more evenhanded approach towards the main issues in the Middle East was the wisest course to be followed. But after the Yamani-Piercy talks, and the growing tension between Israel and its foes, Gibson Barboza realized that a change was needed. As usual, it was not an ideological matter but one of pragmatism, since Brazil had no moral stake in the affair.

Brazil did not share with Israel the same historic ties that bound it to Portugal, despite the noteworthy importance of the Brazilian Jewish community. In the end, it made more political sense to adopt a total pro-Arab stance in the United Nations and other multilateral forums. This new course set during the Medici presidency would become more deeply entrenched in the future after the First Oil Shock.126

In that scenario of uncertainty that marked the oil market by the end of 1972, Petrobras used Itamaraty’s vast networks of high profile contacts in order to collect more information that could have been used for the new oil strategy for 1973. In that sense, the Brazilian embassy in London was instrumental, not only because of the quality of its staff, but also because London was the main global oil market. The Brazilian ambassador, Sergio da Costa, was very adroit in cultivating those contacts and using them for the benefit of Petrobras. Two cases seem to be fairly important. These were his contact with the Saudi Ambassador in Lon-

don and the consultancy service provided by the renowned Austrian oil expert, Professor Paul H. Frankel.

In his talks with the Brazilian ambassador, Ambassador Hailassi was clearly trying to extoll the virtues of the Saudi oil and government system to an important buyer. Hailassi frequently told ambassador Costa that Brazil should give up on its venture in Iraq because the country was too unstable. The Saudi diplomat also argued that Brazil should not invest more resources in Libya either, because Colonel Qaddafi was a “lunatic” who would eventually squander Brazil’s resources. Hailassi also said that Saudi Arabia was open to more extensive deals with Brazil, but warned the country not to join any multilateral institution that would directly challenge OPEC.

In case such a course was followed, the Saudi government would interpret it as an insult to the Kingdom.127 These talks helped the Brazilian government to feel more at ease with the changes that were taking place at Saudi Aramco, and renewed their sense of urgency for improving diplomatic contacts with Saudi Arabia. What it is interesting to emphasize here is the mutual need that one country had for the other within the market logic. Very often analyses are simply reduced to the duality of a buyers’ market or a sellers’ market. Theoretically, the Brazilian move should have been interpreted as Brazil begging for access to Saudi oil in a market where the seller had the edge.

But we cannot forget that Brazil was also an important buyer for Saudi Arabia, a 90 million strong country whose GDP was growing 12% each year. The Saudis were also implementing their own development program, which meant consolidating the country’s economic position as a regional power. Therefore, Saudi Arabia needed to maximize the acquirable rent from oil, and Brazil’s gigantic scale represented an opportunity that could not be missed. These talks between ambassadors Hailassi and Costa were instrumental in forging a closer relationship that would bring positive results for Brazil. The nature of the relationship between Brazil and Saudi Arabia did not involve the fancy deals that had been agreed to with Iraq or Algeria. But slowly Saudi Arabia became to Petrobras “a lender of last resort”. This meant that Brazil could always count on Saudi Arabia to maintain its oil supplies, even in times of scarcity.

By the 1970s, Dr. Paul Hertzberg Frankel was one of the great oil experts of his time. His books on the nature of the oil market and how it was prone to instability became hugely successful during the postwar period.\(^{128}\) Since Frankel lived in London, that gave Ambassador Sergio Costa the chance to approach him and ask for advice. In his several talks with Frankel, Costa felt that he had received substantial analysis about the future of oil markets and the political moment that the world was living in. Frankel argued that Brazil’s strategy of getting

closer to the producers was correct, that the future belonged to state companies such as Petrobras, and that the Majors would have a limited role in the future.\footnote{129 18/10/1972 Brasemb London. P.5. 28/11/1972 - BRASEMB Londres para DPB/DOP/DAS. Encontro com Paul Frankel. P.2. 28/11/1972 - BRASEMB Londres para DPB/DOP/DAS. Encontro com Paul Frankel. (Different document)P.1. 11/10/1972- BRASEMB LONDRES. DPB/DOP. Petroleo, conversa com o Dr. P.H. Frankel. Pp.1-5.}

In his conversations with Ambassador Costa, Frankel contended that the context of détente was good for Brazilian interests, since a deescalated Cold War mood could allow countries like Brazil to pursue other partnerships more freely. But Frankel also warned the Brazilian authorities that he envisaged a near future where oil prices would soar with increases that would be so drastic that they could put the whole oil strategy in peril. On top of that, Brazil should be aware that an energy crisis could initiate a new race for the discovery and implementation of renewable energy sources. Such a pursuit, Frankel believed, had the potential to bankrupt several countries.\footnote{130 Idem.}

Given the thoroughness of the analysis Frankel provided, Costa was in some ways both appalled and satisfied. Brazil’s new diplomacy of exploring different partnerships seemed to be vindicated by Frankel’s words, and that was exactly what Medici and others wanted to hear; reassurance from reliable foreign sources that Brazil was becoming a world power. These were critical insights that also provided validation. However, Costa recognized that Frankel’s ominous forecasts had to be kept away from Geisel and Medici.\footnote{131 18/10/1972- MRE to BRASEMB London. Petroleo. P.2} But Shigeaki Ueki had access to Frankel’s assessment and was fascinated by it. For the next few months, a
Frankel mania took over Petrobras and Itamaraty with the Austrian professor suddenly having become the oil Pope of the Brazilian government.

The Brazilian love affair with Frankel reached its peak in December 1972 when the professor invited Petrobras to be a part of the Zurich Club, a new organization that he was establishing with state oil companies from other consuming countries. The Zurich Club was supposed to be a debate forum where oil companies would align their strategies and, under the guidance of Frankel, they would develop strategies to deal with upcoming changes in the oil market. Ueki and the diplomats were very willing to join the club, and they even hinted that Brazil would have a special envoy for such an important meeting.\textsuperscript{132} When the letter of acceptance from Frankel was received at Itamaraty, it was a burst of joy. Even Geisel was saluted for the international acknowledgement that Petrobras was one of the world’s most important oil companies, which reaffirmed the growth of Brazil in the international arena and its status as an emerging power.\textsuperscript{133}

Unfortunately for Petrobras and Itamaraty, things were about to turn sour. In its closer contact with the Saudi ambassador, Hailassi, it became apparent that he felt a personal disgust for Frankel, a feeling that was affirmed when Hailassi made clear that he considered the Zurich Club to be aligned against the interests of the Kingdom of Saudi Arabia. Given the

\textsuperscript{132} Brasemb Toquio. 21/12/1972. Confidencial: DPB/DAO. Clube de Zurique, participacao da Petrobras. P.2
06/12/1972. DPB para Brasemb Londres. Confidencial/urgente. P.4
29/10/1972- Jorge Carvalho e Silva para Ernesto Geisel. Clube de Zurique, participacao da Petrobras. Pp.3-7
\textsuperscript{133} 19/12/1972. Confidencial: DPB 02. Mre para Ernesto Geisel. P.5
Brazilian strategy towards the Middle East, relations with Frankel had to be swiftly terminated in order to remain on strong terms with Saudi Arabia. This was done in a fast, smooth, and discreet way. In the end, even Frankel himself acknowledged that it was better for Brazil to leave the Zurich Club.134

In the eleven months that followed between the Piercy-Yamani accords and the First Oil Shock, Brazil was trying to implement its strategy of getting close to the Middle East oil producers. After the accords, Brazil would have to spend approximately an extra US$ 12 million for its foreign oil bill in 1973.135 The flow of foreign capital to Brazil allowed the country to pay the extra bill, so the initial price increase did not generate an immediate concern for Petrobras.

Brazil kept pushing to secure deals with some of the more unstable OPEC countries, such as Libya, Iraq, and Algeria. Itamaraty warned President Medici that Brazil would continue looking to develop more comprehensive deals with Iraq (INOC) in the near future. Although Brazil was appalled by the way that Iraq nationalized the foreign owned Iraq Petroleum Company (IPC) in 1972, the Foreign Office judged that it was still the best option for Petrobras, given the growing Brazilians oil needs.136 Itamaraty feared a Communist coup in Iraq, since rhetoric within the country’s was becoming more radical and the Baath party al-

135 22/12/1972. BRASEMB Washington. Negociacoes da participação de petróleo.663.63 (B46)P.1
25/10/1972. Memorandum para Secretario geral, adjunto e substituto para relações econômicas. Petroleo, elevação dos preços internacionais. 663.63 (00)Pp.1-4
ready cooperated with the USSR on several fronts.\textsuperscript{137} The Brazilian embassies in London and Washington were also warned by the respective governments of those countries to leave Iraq as soon as possible.\textsuperscript{138}

1.6 Implementing the Rome Strategy

Although leaving Iraq seemed be a safe bet at that moment, it is important to emphasize that the whole Brazilian strategy was one of balance between the “safe countries” and “rebellious countries”. Though doing business with countries that were becoming pariahs in the global oil market was certainly risky, it was the kind of risk that Petrobras was willing to take. The Brazilian company understood that it had to work with some countries that were pariahs in order to meet its ambitious balance of exploration areas plus the export of manufactured goods. Since Petrobras knew it could not reach this kind of arrangement with Petromin (Saudi Arabia), going all the way with Iraq remained its only option.

Another front where despite technical problems and political issues Petrobras was making considerable advances was Algeria. The Algerian state company (Sonatrach) had been a partner to Petrobras since the late 1960s, and relations had been getting closer ever since. On several occasions Brazil even bought Algerian oil above the market price in order to keep the relationship close.\textsuperscript{139} The ultimate Brazilian goal was to agree to a contract for a joint venture

\textsuperscript{137} Idem.
\textsuperscript{139} 14/03/1973. BRASEMB Argel. Compra de petroleo. Argelia. 665.81(B46. P.1
with Sonatrach in a prolific field that could provide for a substantial portion of the Brazilian needs in years to come. By March 1973 Petrobras and Sonatrach were able to reach an initial deal that involved the sale of 25,000 bpd at least until the end of the year at US$ 3.70 a barrel. Ueki said that it was a bit above the average price, but since Algeria was willing to buy large quantities of Brazilian sugar, the original 3.70 would get a substantial rebate.  

Besides that, the fact that the deal was agreed to demonstrated how Sonatrach cherished its relationship with Petrobras, since the Algerian ambassador admitted to Ueki that Sonatrach would have to find an extra 1 million barrels to fulfill the contracts it had with other European companies. But Petrobras wanted more than that. It was looking for a more comprehensive deal where its subsidiary Braspetro would be able to actually explore new areas of Algeria. In order to reach that level of trust, Petrobras still had to apply both resources and patience to its diplomatic approach.

Overall, the Sonatrach deal showed the kind of partnership that the Brazilian government was aiming for. The idea was to reach more than a business association, by creating strong bonds with sellers. These bonds, the Brazilian government believed, would open up markets for Brazilian products, enhancing Brazil’s trade position with the oil producers. It was more than just business; it was personal approach that was intended to provide Brazil with an edge on competitors.

Meanwhile, the Brazilian foray in another North African country, Libya, was becoming more of a headache. Since 1969, Brazil had been buying Libyan oil, mainly because of its

good combination of price and quality. Initially, Brazil was purchasing around 9000 bpd from the majors that were present in the country, especially Shell and BP. Occidental Oil was not a major, but was an important player in Libyan oil. However, after seizing power in the same year that Brazil started its Libyan crude purchase, Muammar Qaddafi started a radical program of expropriation, especially from the British and American companies.\textsuperscript{141}

What followed was a great test for the Brazilian grand strategy, since its resolve to act alone in the oil market would be tried by the United States and Great Britain. The situation was very difficult, since Libya was the perfect kind of country for Petrobras to ally itself with. It belonged to the “rebellious” wing of OPEC with Qaddafi willing to debate additional contracts that allowed for Braspetro to actually explore the region while Libya would buy Brazilian industrial goods and commodities. In summary, it was the total package. But soon Brazil’s resolve would be tested in London and Washington. By February 1973, the British Foreign Office embarked on an all-out diplomatic offensive against Brazil, pushing Ambassador Sergio Costa to convince President Medici to stop buying Libyan oil.\textsuperscript{142}

Shigeaki Ueki was determined to keep up with the purchases since Brazil had nothing to do with the ongoing feud.. If the British wanted Brazil to quit, Shell and BP should offer Brazil the same amount of oil at the same price the Libyans were selling it.\textsuperscript{143} Through being noncommittal and not refusing to cancel the arrangement outright Ueki was able to success-

15/02/1973. Petroleo- Libia -BP.663.63 (A28) P.1
\textsuperscript{143} 22/02/1973. BRASEMB Londres. Petroleo. Libia-BP. 663.63 (A26) p.2
fully put the ball was back in the British court. It was up to them to solve the Brazilian problem if they wanted to help their own cause. Later on, two BP executives tried to persuade Ambassador Costa to change his position on the matter. But, BP could only provide oil to Petrobras after 1975, which the Ambassador considered to be unacceptable. In the end, Costa reaffirmed that Brazil would not change its position and would keep buying oil from Libya.144 By August 1973 BP was officially suing Petrobras for what the British company believed to be a condoning action with a severe break of the international law.145

The Brazilian ambassador in Washington was receiving similar objections from his American counterparts at the State department. But the Americans were applying more rhetoric than action, unlike the British were doing. The American ambassador in Brasilia consulted Itamaraty to learn its position. But, the Brazilians were adamant, and affirmed that they would not abandon the Libyans.146

Brazil’s resilience paid off, and closer contacts with Libya would have a handsome reward. Later in 1973, right after the beginning of the First Oil shock, Brazil was awarded a huge contract for Braspetro at the Sarir field. Braspetro was supposed to obtain 50,000 bpd in that area while 60,000 tons of Brazilian sugar would be exported to Libya. The bold Brazilian strategy paid off, and they had achieved the outcome they had expected back in Rome in 1972. Yet, there was also a moral tale behind the Brazilian posture in the Libyan affair. Per-

haps as important as securing the access to Libyan oil was making a statement to major powers like the United States and Great Britain that Brazil now belonged in another league and could not be pushed around. This kind of posturing is still seen as the culmination of the independent foreign policy as designed by San Tiago Dantas and Afonso Arinos. Nevertheless, just as Brazil and Petrobras seemed to be at the peak of their powers, a storm would come and would wash away not only the Miracle, but the efficient monopoly itself.

1.7 The First Oil Shock

A lot has been said about the end of the Miracle in the historiography of Brazil. The most common narrative is that despite its high level of foreign leveraging and growing inequality, the country was developing a solid base for long term indigenous growth. This solid growth was brought to a halt after the First Oil Shock in 1973, but if the Shock never happened, the Miracle ultimately was sustainable, so the argument goes. By looking into the details of the Brazilian economy before the Shock, it is possible to make a different argument. In 1973, the IMF’s annual report on the state of the Brazilian economy diagnosed a series of imbalances that had nothing to do with oil that sooner or later would have compromised the Miracle itself. First, it was clear that the Brazilian economy was suffering from acute overheating. Inflation jumped to 31%, from around 15 to 20% a few years before. On top of that,

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the world was entering an inflationary cycle caused by the end of the Gold Standard, which pushed Brazilian prices even higher.  

Several years of spectacular growth disguised several bottlenecks that affected the Brazilian economy. There was an acute shortage of skilled workers, which directly affected the capacity for industry to expand and created bigger income gaps between skilled and non-skilled workers. In only one year imports rose 116% led by steel and fertilizers that amounted to one third of the trade balance deficit. Important sectors of the Brazilian economy were either subsidized or indexed, which created a range of extra government expenditures plus inflationary pressure. Moreover, if that was not already enough, the Brazilian government was receiving even more credit abroad in the form of loans, while at the same time printing more money. According to the IMF Brazil had a US$ 2.5 billion loan cap that it could expand annually, but the country was already borrowing above that cap.  

Since 1968 the IMF reports had not identified oil as a major problem, even in spite of small price increases in the global oil market. For the Fund, Brazil had a regular oil bill that was compatible with the country’s growth rates. The real problem was that at its base the Miracle was unsustainable and for reasons that have previously been mentioned, had nothing to do with oil. It was only a matter of time before the Brazilian economy would hit a wall, since the country was not in a position to continue with the current path. Four months before the Oil Shock, Delfim Netto was already saying that Brazil should tackle these exact prob-

\[149\] Idem.
lems, and it had to do so soon.\textsuperscript{150} The signs were all there, but imposing a recession on the economy was not an option. The economic team had to find another solution that did not involve cutting demand.

The perception of several historians and oil experts converge to the conclusion that the 1973 Oil Shock had been some time in the making before it really happened. The threat of using oil to achieve political goals in the Middle East, like in 1967, had made more conservative OAPEC producers uneasy. However, in October 1973, the perfect storm pushed even the conservatives towards trying something more radical. A combination of high global inflation, diminishing profits, rising Arab nationalism and the Western role in the Yom Kippur war led OAPEC to use what was seen as the ultimate weapon. For developing countries like Brazil, the crux of the matter was not an “oil shortage” as many believed, but rather the impossibility of a middle income country surviving steep price increases.

As seen earlier in this chapter, Brazil benefitted handsomely from the oligopoly established by the oil Majors in the Middle East. Cheap oil from the Middle East imported by Petrobras helped to fuel the Brazilian Miracle. There was tension in the Brazilian political scene in the months that followed the embargo announcement by the OAPEC nations, when global oil prices quadrupled 3 months after the embargo was announced. An intense rhythm of diplomatic activity followed, where Western Powers were trying to untie the Gordian knot

\textsuperscript{150} “Um modelo em julgamento.” Veja, July 5th 1973.
with the OAPEC producers. It was also in the interests of the conservative Middle Eastern
producers to drift away from radical producers and establishing normalcy once again.\textsuperscript{151}

Interestingly, Brazil had a peculiar assessment of the situation. Several politicians, ex-
perts and journalists believed that the Oil Shock was a matter of supply, not of prices. Conse-
quently Brazil should brace itself for a future where oil would be a rare commodity. There-
fore, an even more ambitious energy program was necessary to diversify its energy matrix.
Other industrialized nations were trying to do the same, but the main issue was one of wheth-
er Brazil could cope with the costs of such endeavor given that it could not count on extra in-
come from “recycled” petrodollars, as the leading industrialized nations could.\textsuperscript{152}

After Western assistance, led by the United States, helped Israel to turn the tide in the
Yom Kippur war, OAPEC decided to strike back with the only weapon it could, the oil sup-
ply. There was a brief moment of Arab unity where even the conservative pro-American
Saudi Arabia consented to punishing Israel’s allies with an oil embargo and a cut in output.
For a world economy that had only known cheap and plentiful oil to date, the 1973 shock had
the destructive power of an economic tsunami. With the four-fold increase in oil prices at-

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attached to the lack of a stable currency as a reference point for global prices, inflation and recession took over almost immediately, making stagflation a marked feature of the 1970s.\textsuperscript{153}

In the end, the OAPEC embargo on sales to the United States in October 1973 became the perfect scapegoat for the end of the Miracle. A crisis started abroad, for which Brazil was neither expectant nor prepared, made for a plausible explanation with which to deflect any blame away from the Brazilian Keynesian/ECLAC economic model. It was not the Miracle that was flawed; the Petrobras’ technocrats were unable to prevent the Oil Shock from happening and this ultimately obliged Brazil to borrow even more, culminating with the Debt Crisis of the 1980s. What the First Oil Shock took from the Brazilian economy was not the efficiency of its model, which by 1973 was already doomed, but rather the possibility of a soft landing. On top of all that, as we have seen previously, Petrobras did all it could in order to be prepared for a rainy day but what events of 1973 were beyond even the worst case scenario that the company had predicted in its seminar in Rome or in its talks with luminaries and diplomats.

The first six months of the crisis for Brazil could be referred to as “shock and awe,” since an economy that was already in is doldrums now seemed to be in free fall. There was a sense of desperation in the air, with Brazilians worried about with rumors that gas prices could go up by 14\%, and that shortages at gas stations would soon start to appear. The government

was equally worried, since Brazil initially feared that it was also included in the embargo in the absence of clarification from the Saudis. It was only after a few weeks that the Saudis sent a message informing Brazil that they would only be subject to the “regular cut” and not the full embargo.  154 But even that was far from being of solace to the Brazilian government, which needed to guarantee steady oil supplies soon.

The real measure of Brazilian desperation came in an auction that occurred in Tehran for a huge supply contract by NIOC, around 500,000 bpd. Since Iran was not an OAPEC member, buyers from all around the world descended on the Tehran Hilton with the hope of securing the lucrative contract. Petrobras had made its offer at around US$ 8, which for the company was a staggering amount. To their absolute surprise, Japanese and American companies were offering more than $ 17 per barrel for Iranian crude and there was no way Petrobras could compete with that.  155

The young diplomat Luis Felipe Lampreia recalled several years later that this was the moment when he knew that “the Miracle was dead.” Even more experienced men such as Shigeaki Ueki and Paulo Nogueira were feeling the heat and the hopelessness of that entire situation.  156 But little by little, Petrobras and Itamaraty were finding their ground all over again and realizing that their best option was to simply stick to the original plan, only to im-

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154 07/11/1973. BRASEMB Washington- Floriano peixoto Faria Lima. 663.63(E14)p.4
156 Idem.
plement it faster and more boldly. The Brazilian government had to make the most of all of its contacts in order to guarantee their supply, but even that would be a daunting task.

In order to accomplish something and regain the initiative, Chancellor Barboza sent a letter to all of the producing countries asking them to take Brazil as friend and help them in this hour of need. Those who blessed Brazil with their generosity would not be forgotten and would be rewarded by the Brazilian government.\(^{157}\) The main prong of the Brazilian offensive was to be a high profile visit of a Brazilian commission led by Paulo Nogueira Batista to the Middle East. It was an intense tour lasting more than twenty days that concluded just before Christmas, and perhaps one of the most important moments in Brazilian diplomatic history. In essence, Brazil learned that there was a considerable stock of good faith from the Arab nations to the country that was seen as a reliable friend. Brazil was collecting the benefits of its fierce pro-Arab stance in the United Nations and other forums.

While some nations squandered time with indecision, Brazil was there from the beginning. Perhaps the culminating point of the trip was the visit to the esteemed King Faisal of Saudi Arabia.\(^{158}\) From the start the Saudis conferred upon the delegation the importance it deserved, since they were official guests in the royal house. It was a new, exotic, and fascinating experience for most of them, who never had seen that part of the world. King Faisal, an imposing figure quickly impressed the Brazilians. Sheikh Yamani was not at the meeting due to other commitments abroad, but the foreign minister Sakkaf was present. After a quick


\(^{158}\) 21/10/1973. Secretaria de Estado to BRASEMB Londres and BRASEMB Madrid. 663.63(E14)Pp.3-6.
talk, Faisal announced that Brazil would not suffer any cuts at all in its oil supply from Saudi Arabia and that new improved terms would soon be established. The Brazilian delegation was set to start buying 300,000 bpd from the Saudis, and they expected to receive more from Petromin (Saudi State company) than from Aramco.

The Saudis also speculated about the possibility of allowing Braspetro investments in the country and were also interested in a more dynamic trade relationship with Brazil that could involve Vale’s iron ore. But the great moment came at the end, when a visibly moved Paulo Nogueira thanked King Faisal for his generosity, to which the king responded, “true friends never need to thank one another”. That was exactly the boost that the Brazilian delegation needed for the other tough negotiations that lay ahead.

Another game changer in the Saudi relationship concerned Chancellor Sakkaf who had extensive dealings with the Brazilian embassy in London and had enjoyed several personal visits to Brazil In such a hierarchical, personalized political system courting the right Saudi representative was the best way to achieve Brazil’s goals. And since Brazil resembles Saudi society in placing great significance in direct access and personal connections, this was a game the Brazilians were far more ready to play than the Americans or the British.

At the same time as the Itamaraty delegation was in the Middle East, Shigeaki Ueki and Carlos Sant’Anna were in Algiers trying to arrange significant new deals with Sonatrach.

\[159\] 30/01/1974. BRASEMB Jeddah para Secretaria de Estado. Aumento dos preços de Petroleo. Proposta de tratamento especial para os países em desenvolvimento.p.2

12/01/1974. BRASEMB Jeddah para Secretaria de Estado. Petroleo, Missao nogueira Batista. 663.63(E14) p.5

07/11/1973. BRASEMB Washington- Floriano peixoto Faria Lima. 663.63(E14) p.1

Since the beginning of 1973 the Algerians were signaling they were opened to a more comprehensive deal with Petrobras, given the fact that Brazil was the only country in the world that could provide sugar in the quantity needed by the Algerians. After months of tough negotiations, a final draft had been approved. Soon, Petrobras was able to sign its first joint-venture with Sonatrach. 161

It involved a 17,000 square kilometer area in Algeria, plus an upfront payment to the Algerian government to be made by Braspetro of US$ 6 million. Braspetro was also supposed to donate at least US$ 2 million to the Algerian Institute of Education. It was a long-term deal, since it involved the rights to a four year exploration of the site plus another twelve years of drilling once oil had been found. In those four years of exploration, Braspetro was obligated to invest at least US$ 30 million in research in that area. Sonatrach guaranteed that Brazil would be extracting at least 20.000 bpd each year with Brazilian sugar purchases by the Algerians also an important part of the deal. 162 And there was one last request made by the Algerians; they wanted to see Pele playing for Santos live in Algeria for a friendly football match. At first the Brazilian delegation thought they were joking, but the Sonatrach board was dead serious. 163

In theory, the deal was all set once the draft had been agreed upon by Geonisio Barroso (Braspetro’s president) and Ait Laosine for Sonatrach. However shortly thereafter, as the First Oil Shock was evolving, the Algerians started to reconsider the terms they had agreed to

162 Idem.
163 Idem.
in the draft and started to ask for more. Sonatrach requested more money and sugar for even less oil. They demanded a US$ 40 million investment instead of US$ 30 million and an increase upon the 640,000 tons of sugar in the initial proposal, besides which the Algerians claimed that they could not guarantee the one million tons in the first four exploratory years. These new requests were treated as an insult by Barroso and his negotiating team.\(^{164}\)

The Braspetro delegation regarded the first draft as already quite demanding on the company’s finances, and found these new demands to be simply unbearable. In the end, Braspetro threatened to give up on the whole deal and was ready to sell its sugar to Nigeria, Iran, and Iraq instead.\(^{165}\) Barroso took their offer back to Petrobras, where the Brazilian company planned a counter-offer that was accepted by Sonatrach in February 1974. The deal involved a guarantee by Sonatrach to provide Braspetro at least 15,000 bpd of oil during the exploratory years and at least 20,000 bpd. The price was a sign of the new times, a staggering US$ 14 a barrel, with Braspetro receiving a US$ 0.49 profit on each barrel of what was required to be refined oil.

After more than a year of tough negotiations, Petrobras scored another important victory for its subsidiary Braspetro. A contract that extended until 1981 was truly fortuitous during such hard times. Essentially, this was the best deal that Petrobras could hope to obtain during a period of severe uncertainty, where its bargain power had been largely decreased. The rational choice had been to explore its options with more volatile partners, such as Algeria,

\(^{164}\) 05/12/1973. BRASEMB Argel. Petroleo. 663.63(A28).p1

Idem.
where the company could profit from its daring investments. Moreover, given the need of these countries to develop rapidly and their will to seize upon advantageous moments in a sellers’ market, Brazil had a lot to offer from commodities to weapons and white-line goods. Petrobras wisely stuck to its plan; with the difference that now the goal was not to secure oil joint ventures, but to secure larger trade deals. However, the deal was a landmark in demonstrating Petrobras’ ability to compete abroad and Braspetro would establish its credentials in another big project through which Brazil would guarantee its oil supply. Finally, Pele and Braspetro were on their way to Algeria.

1.8 The Birth of Campos Field

As has been often said, grief has several stages. A person goes from total despair, passing through denial, and finally comes to accept their loss. By late 1973 and early 1974, Brazil was moving away from despair and entering a long period of denial that would last until 1982. For the government suddenly the Miracle could be saved and it was only a matter of securing the right energy mix. For that to happen, Brazil had to invest in all kinds of new energy sources, such as shale oil, ethanol, nuclear, and hydropower. But above all, Brazil had to find oil in its own territory.

Certainly, it became harder for Petrobras to do its job when the hopes of an entire nation weighed upon its shoulders. Looking in hindsight, Petrobras was investing significant resources in finding oil in Brazil, but that was a goal that had eluded Petrobras since 1953 and
other private entrepreneurs since the 1870s, when the Emperor Dom Pedro II gave a letter of exploration to a small British company.\textsuperscript{166}

Since Petrobras’ inception in 1953, practically the whole Brazilian land mass had been thoroughly analyzed and not a single meaningful reserve had been discovered. An American team of geologists led by Arthur Link came in the mid-1950s, followed by a Soviet team. None of them had found a single trace of a major onshore reserve.\textsuperscript{167} However, since the 1960s some promising findings were taking place offshore. Petrobras increased its investments in platforms, exploration, and research, but was yet to make a major discovery that could alter the underlying dynamic for a country whose oil bill quadrupled in a matter of months, putting pressure upon the trade balance as well as the rate of inflation.

Still living through the process of despair caused by the Shock, an aura of oil hysteria gathered in the mainstream Brazilian press, most notably \textit{Veja} magazine. Every week the magazine, the most popular weekly publication in Brazil, would produce strange stories of oil reserves that were found on the Brazilian coast, only to correct the information the following week.

Several false dawns followed, such as the promise that the recently discovered Caioba field in Sergipe alone would give Petrobras 200,000 bpd. Even Geisel, Brazil’s new President as of March 1974, joked that, “not even Saudi Arabia had a field like that”.\textsuperscript{168} In the end, the

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\textsuperscript{166} Smith, Peter Seaborn. 1976. Oil and politics in modern Brazil. Toronto: Macmillan of Canada. p.163.
\textsuperscript{167} Idem.
\textsuperscript{168} “Relatorio oficial”. Veja, July 10th 1974. Veja has been used here to demonstrate the excitement that surrounded the new findings in the Campos Basin.
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magazine had to admit that the actual numbers were close to 10,000 bpd, which would not help Brazil to satisfy its demand for almost 800,000 bpd by 1974. \(^{169}\) Similar drama involved the findings of the of the Ubarana (Sergipe) and Mero (Rio Grande do Norte) oil fields. Those fields never lived up to the expectations that were projected upon them. \(^{170}\) Even the old Carmopolis field was subjected to scrutiny after the legend that Petrobras found a 3 billion barrel reserve there had to be dismissed by Petrobras’ engineers, with the regular jokes such assumptions deserved.

Amidst all the rumors, oil prophets, and the Shock, one finding made by Petrobras was finally revealing itself as a potential major discovery. The first time that the small fishermen’s community of Campos, in the Rio de Janeiro state, called the attention of the Brazilian geologists was in 1942 thanks to the work of a lonely geologist named Alberto Lamego who worked for the National Oil Council (CNP), a Petrobras’ predecessor created by Getulio Vargas in the 1930s.

By 1974 the CNP exercised the same role as that of Queen Elizabeth II in the British political system: pomp with no actual power. Back in 1942 Lamego, riding a horse and equipped only with the know-how conferred by his King’s College degree, spent several months in the region analyzing potential oil sites. Campos was perceived as promising, but it took until 1969 before Petrobras had the technology and the personnel to properly investigate


\(^{170}\) “O novo milagre brasileiro?” Veja, December 4th 1974. Veja has been used here to demonstrate the excitement that surrounded the new findings in the Campos Basin.
the true potential of the area.\textsuperscript{171} The government conducted the research in secrecy with the assistance of American geologists who were working in collaboration with Petrobras.

By late 1974 it was already clear that Campos held real promise, although the technological challenges involved meant that it would demand massive investment from Petrobras to drill wells that were sufficiently deep. \textit{Veja} magazine, always very close to the government, published a groundbreaking story about Campos in December 1973. Within a year of the initial story, there was a huge oil craze surrounding the small town of Campos. Even President Geisel was pictured smelling and giving his seal of approval to the first oil bottle that came from Campos.\textsuperscript{172}

In spite of this the first industry in Campos was not oil, but rather tourism. The mayor was already making the most of the town’s new found fame. All sorts of souvenirs were sold, there was a horse named Petroleo, and even the city’s ghosts that appeared in African religious rituals, known as \textit{macumba}, claimed that “oil is about to flow.”\textsuperscript{173} Neighboring cities such as Macae were jealous of the money that Campos was already making on oil tourism and the mayor wanted the world to know they had oil as well.

In the midst of all this, Petrobras aligned itself with the construction company Mendes Junior to build all of the necessary infrastructure. It was a project on such a scale that Mendes Junior partnered with the French construction company Campenon Bernard, in order

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\textsuperscript{171} “As virtudes notaveis do petroleo.” Veja, December 11th 1974. Veja here has been used to demonstrate how the new oil findings were affecting the Campos region, changing people’s lives.
\textsuperscript{172} Idem.
\textsuperscript{173} “Vivendo com o petróleo.” Veja, February 12th 1975.
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to obtain extra funding and expertise. The first stage of exploration involved three platforms and would cost approximately US$ 47 million with Petrobras engineers affirming that Campos would develop the facility to its full potential by 1980. Meanwhile, Brazil would have to find another solution that did not depend on the Campos basin. Although 1980 seemed a distant future for a country desperate for oil, in the midst of the oil crisis, Campos brought some solace. The discovery came to symbolize a new period for the company, where internal oil exploration would become as important as the search for foreign supplies.

From 1967 until 1975, Petrobras travelled a very long but successful road. Ernesto Geisel, its president from 1969 until 1973, always affirmed that “the oil monopoly it is a means of action, not an end in itself.” Geisel applied all the might of being a monopoly in order to make Petrobras a strong company. During this time, the company fulfilled the highest standards that its founders had set for it, the idea that an efficient state monopoly was possible. Under the command of Geisel and Ueki the company followed the only rational choice it had given the fact that Brazil needed an immediate and substantial supply of oil to fuel the Miracle. Unfortunately, while Petrobras was acting like a rational actor, the Brazilian government’s expectations for the company were becoming increasingly unrealistic.

Petrobras invested heavily in forming a competent staff and in having state of the art technology and research facilities. The company was also able to prove that a Brazilian organization could not only compete and succeed on a global basis, but that it was also able to take advantage of resources in different parts of the world. At a time when most Brazilian

174 Cidade x Cidade. Veja, August 6th 1975. Veja here has been used to demonstrate how the new oil findings were affecting the Campos region, changing people’s lives.
economic planners believed that a closed economy was the surest way to prosper, Petrobras proved exactly the opposite, that global action in a fiercely competitive environment could yield better results in the long run. Those improvements in productivity allowed Petrobras to beat the Majors to several foreign contracts, and to assume control in the Brazilian retail market that they had dominated for more than seventy years.

Petrobras’ alliance with Itamaraty helped to write some of the most interesting chapters in Brazilian diplomatic history. Due to its pressing oil demands, Brazil was forced to accelerate its strategy to become a global player, one that could benefit from Détente and be a more international player that had economic development as its primary objective. Petrobras’ needs encouraged Brazil to establish more comprehensive relations with nations in Africa, Asia, and Middle East which as a result bolstered Brazilian credentials as a major player in the Third World.

Brazil’s support of the Arab cause created political capital in the region which brought very real benefits through the joint ventures in, Saudi Arabia, Iraq, Libya, and Algeria. In South America, the Itamaraty-Petrobras alliance also proved to be instrumental to Brazilian interests. Within the region Petrobras was able to overcome experienced challengers in the oil business, such as Venezuela and Argentina. Its edge in the South Cone market provided useful cash flow to the company that was later reinvested in its own projects in Brazil.

Petrobras’ success during the early 1970s returned great political dividends for the company’s leaders. The military elite regarded Geisel as the quintessential no-nonsense technocrat. This aura provided a platform for him to become Medici’s choice to become the president/dictator of Brazil in March 1974. Geisel named Ueki as the new Secretary of Mines and
Energy, concentrating all the power to decide Brazil’s future energy policies in Geisel’s hands. Both men knew and understood that they were up against an energy crisis and a crumbling economy.

After 1973, Brazil’s options were increasingly limited. Being the consummate insiders as they were, they understood that the economic foundations that had sustained the Miracle no longer existed. Inflation was out of control and foreign debt service was becoming unmanageable. The new Geisel administration could have opted to cut back on foreign borrowing and imports in all areas, including oil. They could have opted for an old Getulio Vargas strategy, which was to stay the course and wait for the results.175 But that was not the style of Geisel and Ueki.

They saw themselves as patriotic men of action. Ultimately they decided that growth remained their priority and they would work on the basis that the oil crisis would subside, returning the economy to some state of normality. The problem with this line of thought was that the fundamentals were not strong. Brazil lacked investment capital, a highly skilled workforce, and a more dynamic internal market capable of generating sustainable growth over a long period. Oil and the 1973 shock were presented as the scapegoats for the problems that Brazil faced and for all the failures embedded within the Miracle conceived by Delfim Netto in 1967. In the game of world power, Geisel and Ueki had plotted a path forward. The future of Petrobras and one hundred million Brazilians depended on their wisdom and foresight. Time would prove them wrong, with serious consequences.

175 Vargas famous adage: Deixa como esta para ver como e que fica.

The Geisel presidency was one of the most consequential in all of Brazilian history. In his hands lay the destiny of the economic development plan carried over since 1964. Geisel also had to deal with the complex process of easing certain parts of the dictatorship, a process known as Abertura. Accomplishing both tasks at the same time when the world was facing a great economic upheaval with the end of the Gold Standard and the oil shocks of the 1970s would prove to be an impossible task. During his tenure in office, the oil issue would reach its climactic peak. Since it was a decisive component of continued economic growth, all the while enhancing the military’s political capital and legitimacy to pursue Abertura, energy stability was a pivotal issue. Given that context, the goal of this chapter is to understand how oil shaped the economic narrative of the tumultuous Geisel presidency in Brazilian economic history and determine the fossil fuel’s culpability in Brazil’s descent into the economic abyss of the Debt Crisis of the 1980s.

2.1 The Chosen One

Ernesto Geisel was the youngest son of the German immigrant, August Wilhelm Geisel, a humble notary clerk with a strong Lutheran ethic. Geisel and his four brothers spent their childhood in the town of Bento Goncalves, a prosperous Italian colony in the state of Rio Grande do Sul. The Geisel boys received their elementary education in this small countryside town, where they lived a rather simple and happy childhood. When it was time to attend secondary school, the brothers had to move to Porto Alegre, the state capital. The
best school in Porto Alegre was the Colegio Anchieta, operated by Jesuits. Besides being beyond the financial reach of the Geisel family, the idea of his children being educated by Jesuit priests contravened the core beliefs of the Lutheran August Wilhem. The only remaining option was for them to join the prestigious military academy in Porto Alegre, where presidents Costa e Silva and Medici had also studied. Ernesto and his brother Orlando experienced a meteoric rise within the military hierarchy; they soon established themselves among the academy’s elite. From this point forth, Ernesto Geisel found success in every activity he pursued, from being a prodigy within the academy to eventually becoming the president of Petrobras.\textsuperscript{176}

When General Medici had to pick his successor, he was in a much better position than his predecessors, Castello Branco and Costa e Silva. The economy was growing fast, the Marxist guerrillas had been contained after several violent anti-insurgent operations conducted by the army. Medici was well liked among the upper echelons of the military. A sense of optimism took over the country by the early 1970s and there was a belief that stemmed from the country’s civilian and military elites that Brazil was destined to become a developed country once the political succession had been dealt with. Medici was free to choose whomever he wanted and Geisel appeared to be the strongest candidate available. The outgoing president knew that oil would be a central issue in the near future and that the great questions surrounding \textit{Abertura} could not be evaded by his successor. While Geisel was the ultimate oil insider who had been the architect of Brazil’s energy policies towards the Middle East, he also because he belonged to

the so-called Sorbonne group of military officers, who were regarded as more likely to speed up the Abertura.177

Although several generals within the military top brass had designs on becoming president, nobody could oppose Medici’s choice, least of all after he had selected Geisel. The future president was also an expert in dealing with palace intrigue, which helped to strengthen his hand in being picked as Medici’s successor. The new president decided to select his own team to deal with the impending issues. Geisel, unlike Medici, had a more “hands on” style. He was known for being a “paper glutton” and a micromanager, in which regard he bore some resemblance to American president Jimmy Carter.178 Geisel also had a strong sense of duty and liked to sell the image of a no-nonsense manager. This style comforted the military elite and many of the Brazilian people as well, with his whole personality reflecting the aura of a strong leader, a quality that was deemed very necessary after the uncertainty brought about by the First Oil Shock in 1973-1974.

Geisel, in an old-fashioned military style, valued teamwork among the members of his cabinet. While Medici’s cabinet was dominated by technocrats with a penchant for the limelight, such as Delfim Netto (finance) and Mario Andreazza (public works), Geisel’s technocrats were intelligent but more discreet. The economy would primarily in the custody of Professor Mario Henrique Simonsen, considered by many to be one of the brightest economic minds ever born in Brazil. His classes at Fundacao Getulio Vargas University were both feared and admired by students for the complexity of the themes Simonsen addressed. He was the typical 1970s neo-

178 Idem.
classical economist who, despite being a strong believer in the strength of the free market, con-
ceded that Keynesianism held the political edge at that moment.179

As important as Simonsen was Joao Paulo dos Reis Velloso, a discreet technocrat who had been responsible for the Planning Ministry since the times of Medici. However, with Delfim’s exit from the Finance Ministry, Reis Velloso was about to grow in his role as a protag-
onist. Geisel never wanted Delfim to run the economy for him, both never got along very well since their times together in Medici’s cabinet. Geisel regarded Delfim as overly self-important180 For his part, Delfim resented the admiration that Medici felt for Geisel’s intelligence and compo-
sure. He viewed Geisel’s renowned “brain power” as a mere myth. In Delfim’s view, this was evidenced by the fact that when Geisel was the president of Petrobras, he did not discover a sin-
gle drop of oil in the country to sustain the “marvelous “economic system he had created.181 Both men had further causes of disagreement. Delfim’s pro-market approach leaned to a foreign policy closer to the developed nations within the US sphere of influence, whereas Geisel was a nationalist who favored a diplomatic approach towards the developing nations.

In order to resolve the feud between the two powerful egos, Delfim was sent into a luxu-
rious exile as Brazil’s ambassador in Paris. For the pivotal post of Minister of Energy, Geisel selected his loyal aide Shigeaki Ueki. Finally, for the Foreign Office he chose Azeredo da Silvei-
ra, a career diplomat who strongly favored his developmentalist diktat. Silveira was about to re-
receive carte blanche to pursue a more engaged relationship with the Third World, with the clear

179 Idem.
goal to guarantee a steady oil supply and expanded markets for the export of Brazilian manufactured products.

Soon after Geisel was sworn into office in March 1974, it was clear he had inherited a poisoned chalice. The whole facade of growth, strength and prosperity concealed serious flaws that were inherent to the stage of development that the Brazilian economy was living in at that time. First, was the fact that oil prices had quadrupled after the initial Oil Shock of 1973. Brazil, was paying around US$ 2.80 before the Shock but now found itself in the uncomfortable position of paying between US$ 10 to 12 per barrel. From 1970 until 1973 Brazilian oil imports jumped from approximately 300,000 bpd to 600,000 bpd, and 2/3 of these vital imports came from the Middle East, following the directive set by Geisel in 1969. 182

This made Brazil heavily exposed to any changes in the oil market, where its economy faced the real threat of being brought to a halt if domestic demand kept rising and the global supply pricier. In order to maintain its import substitution program moving forward, Brazil was dependent on heavy machinery, services and agricultural staples from abroad. In order to sustain this impressive spending spree, Brazil needed strong reserves of American dollars. In this regard Brazil was fortunate that the Eurodollar market was thriving, despite the IMF’s attempt to control the flow of “recycled” US dollars. In the end, OPEC had to use the Western financial system to recycle the vast dollar reserves accumulated by them after oil prices increased in 1973. 183

Given the difficult situation that the Geisel administration had to face from its first day in office, energy policy soon became a crucial matter. Despite the fact that Brazil had been able to secure vital oil deals that assuaged unfounded supply fears that existed within the government, the Geisel administration decided to follow with a very ambitious energy plan. The goal was to develop alternative energy sources, so that Brazil could have an expanded energy matrix. In the view of the military junta that ruled Brazil with the support of conservative civilians and technocrats, self-sufficiency was their ultimate goal.

For the Brazilian leaders, the instability of the Cold War made it necessary to the country to be able to sustain itself in the case of a full-scale war between the United States and the Soviet Union. A scenario where Brazil was still importing 40% of its overall energy needs by the mid-1970s was therefore unacceptable to Geisel. In order to enhance Brazil’s energy capabilities, Geisel emphasized in the development of nuclear, alcohol and hydropower sources. This is not to mention all resources devoted to offshore oil exploration in the Campos basin and in the northeast, where Petrobras was given substantial resources to pursue an increase in its oil output. As stated by President Geisel and Minister Ueki, the strategy was one of diversification. Nuclear and hydropower would be responsible for providing energy to the growing urban areas in the southern part of the country, especially to its industrial and residential sectors. The use of alcohol was seen as pivotal to cutting the dependency on oil from the Middle East and fostering a promising fuel source for the growing Brazilian car fleet.\textsuperscript{184}

Geisel’s determination in solving the energy conundrum was evident in his commitment to the Brazilian nuclear program, even in the face of strong American opposition. His ambitious

plan to not only build three nuclear plants, but also to have full control of the nuclear cycle, was seen as an important symbol of greatness and independence by the Brazilian military. Westinghouse eventually gave in to the pressure exerted by the US government and reneged on its partnership with Brazil. Meanwhile, West Germany was willing to fully cooperate with the Brazilian grand nuclear project. Despite continued American opposition to the nuclear program, the partnership with West Germany went ahead, and a comprehensive cooperation agreement was signed in 1975.\textsuperscript{185}

In the realm of hydropower and alcohol, the Geisel administration launched bold initiatives. The Brazilian government started to plan the construction of several giant hydropower dams all over the country, and also started the construction of the gigantic dam on the Parana River, which in the future would become Itaipu. The alcohol project named Proalcool (1975) also aimed to substitute gasoline as the main fuel for transportation in Brazil by 1980. There was an unprecedented level of cooperation between the energy ministry, Petrobras, and the foreign car companies that operated in Brazil, especially Volkswagen. The idea was to use private sugar cane distilleries while Petrobras would be in charge of marketing and distributing the alcohol. The ministry of energy would cooperate with Volkswagen to design an engine capable of using sugar cane ethanol efficiently.\textsuperscript{186}

In his ambitious plans, Geisel was helped by the fact that by the 1970s the financial markets were willing to give Brazil substantial credit lines. Despite all of the positive factors that

\textsuperscript{185} Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry. Pp. 107-133.
allowed Brazil to expand, the Geisel administration faced a crucial problem. It had planted the seeds of an expanded energy matrix, but by the mid-1970s Brazil’s energy needs had to be met immediately. By the time that the Geisel strategy yielded results, during the Figueiredo administration, it was already too late. The economic cost of importing oil meant some of these projects had become white elephants, leaving Brazil heavily indebted by the late 1970s.

2.2 The Economic Conundrum

Another indicator of the inherent flaws that surrounded the Miracle were the inflation rates and excessive indexation of all the items related to the core of the Brazilian economy. Commodities such as wheat and oil were subject to generous subsidies from the government, subsidies that cost the economy a respectable portion of its balance of payments while incentivizing overconsumption at home.\(^\text{187}\) If subsidies did not exist, inflation would be even higher than it was by 1973. Medici ordered Delfim to control inflation between 10 to 15%, and there were signs of progress. But, even Geisel himself admitted later that these numbers were manufactured by the Medici administration and he ordered Simonsen to stop releasing these conjured up figures, albeit recognizing that his own numbers were not precise either.\(^\text{188}\) The inflation index was vital for Brazilian workers whose wage increases were linked to a complex formula that was a sum of productivity plus inflation. The formula to calculate the index was arcane, but its appli-


tion was pretty straightforward.\textsuperscript{189} This created a hideous two-tier labor system where those who earned the sum equivalent (or above) to 7 minimum wages every month had immediate inflation compensation. The problem was that 70\% of the Brazilian population earned less than 7 minimum wages, obliging them to endure a severe loss of purchasing power, growing poverty and income concentration.

In essence, the Brazilian economy was suffering from an acute crisis of overheating, which needed to be addressed either by increasing productivity or by a reduction in demand. Alternatively, a more balanced prescription could include a gradual combination of both. It was up to Geisel and his team to determine what course to follow. As emphasized by Peter Evans, at that point it was quite clear that the so-called “Triple Alliance” (State + Foreign capital + National capital) was facing a critical juncture, where the system itself had to be reinvented.\textsuperscript{190} Walt Rostow argued that the moment right after what he called “the Takeoff” was probably the most dangerous one, exactly the kind of moment that Brazil was living when Geisel was sworn in office.\textsuperscript{191}

According to the terms set by ECLAC (CEPAL)\textsuperscript{192}, the moment faced by Brazil in 1974 was the stage where import substitution would move towards export substitution. In other words, instead of exporting agricultural commodities with lower aggregate value, the economy would

move upscale by becoming an exporter of industrialized goods, which have higher aggregate value. If this transition could be effectively completed, domestic markets would thrive and higher levels of income would be enjoyed by most of the population, dramatically increasing the standard of living. In summary, the so-called “easy phase of import substitution” had already been accomplished by the Miracle, but the hardest part was yet to come for Brazil to become a developed country. Given its heavy dependence on foreign oil, capital and services added by chronic high inflation, low productivity and even lower rates of savings and investment (around 20% of GDP) there were many obstacles to overcome.  

In order to perform a flawless economic turn of such magnitude while at the same time conducting the political Abertura would demand the intelligence of a genius, the leadership of a commander, and the luck of a gambler. The always self-confident Geisel believed he had all three of these, yet the presidency would prove to be the ultimate test for the man who was one of the brightest minds ever created by the Brazilian military system.

Geisel had some stark choices given the difficult situation he had inherited, although the majority of the Brazilians were unaware that their president was faced with such momentous choices right at the beginning of his term. On the political front, Geisel was determined to move ahead with the Abertura. He felt that this was his duty. To speed up the transition to a civilian regime was perhaps his ultimate goal, a goal shared by the other members of the “Sorbonne” branch of the military. The new president was willing to defy the so called “Hardliners” led by the Army minister, General Frota, in order to secure a political opening that could suit his own

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On the economic front, the lines were more blurred. Until today, most of the historiography concerning the Geisel presidency has alleged that the 1973 Oil Shock did not leave Geisel with another option, except to expand foreign debt and move forward with the development program.¹⁹⁴

However, pushing forward with export substitution was not the only option that he had. There were some other options; each one contained its own risk and its own promise. Geisel, Simonsen and Reis Velloso could have opted for a minor recession for a few years, until Brazil faced a more favorable scenario abroad, using the 1973 Oil Shock as the perfect excuse. An induced recession would have accomplished three important goals: the control of inflation, and reductions in demand for oil and foreign capital in order to finance foreign oil and heavy machinery for industrialization. Nevertheless, inducing a recession would mean the end of the Miracle, a loss of support from the middle class and the business elite, which would diminish the legitimacy of the regime. That loss of prestige could compromise the whole Abertura project envisaged by Geisel and his chief of staff, Golbery do Couto e Silva.

Geisel respected the tough policies implemented by Roberto Campos and Octavio Bulhões who had induced a severe recession during the Castello Branco administration which had served to balance the Brazilian economy and created the conditions for the following Mirac-

¹⁹⁴ Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry. Pp.103-133.
But, in spite of all his admiration and acknowledgment for the political price Campos and Bulhoes paid to implement a tough, albeit correct, medicine, a recession was anathema to Geisel. His motivations for repudiating this approach did not come out of nowhere; they were based on what he considered dispassionate calculations. Brazil’s population was growing rapidly, close to 110 million people by 1973 and expected to reach 200 million at the turn to the 21st century. The majority of this population was poor and illiterate and only a strong push for industrial development would be able to solve that problem in the long run.

Geisel had other motivations as well. Like other Brazilian military officers, he did not believe in the ability of Brazilian or foreign capitalists to generate development. For the new president, the Brazilian capitalists did not like to put the little capital they had in risky ventures while foreigners were in the country mainly to exploit the native population. According to Geisel, only the strong hand of the State, with its wisdom and patriotism in planning and its ability to control massive resources, could cajole Brazilian and foreign capitalists towards the virtuous path of development.

Such strong belief reflected the influence of the Positivist thought that prevailed in the military officers of Geisel’s generation. In the positivist tradition of Comte, there was little room for the individual or the free market as an engine of societal development. Careful planning, exe-

cuted by a “virtuous dictatorship,” would lead the nation towards the road of milk and honey. Geisel was the embodiment of that conception, since the upper echelons of the Brazilian military saw themselves as “enlightened despots” who were sanitizing Brazil from the evils of corruption, economic backwardness, and Marxism. For Geisel and his close associates, Brazil could not afford the free market model employed by the United States or the United Kingdom; Brazilians were in their view “too naive” for such things as elections and entrepreneurship. While civil society was not ready, the military and its technocrats would “protect” the people and run politics and the economy on their behalf.

For Simonsen and Reis Velloso, the argument against the recession was based more upon the economic trends of the time. By the 1970s, even Richard Nixon had declared: we are all Keynesians now. Nobody could imagine that Keynesianism would soon be supplanted by Neoliberalism and Supply-Side economics. After the Great Depression it became an established idea that the greatest evil in economics was unemployment, which should be avoided at any cost. Inflation and balance of payments deficits were only second thoughts: the main issue was employment. Textbook wisdom said that in the event of a crisis, it was the government’s duty to stimulate demand and guarantee labor rights until consumption and employment levels returned to normal.

By the 1970s, Keynes’ original idea of emergency government intervention became permanent government intervention in the economy, known as “Fine Tuning”. Governments everywhere embraced this policy and started to permanently intervene in the economy in order to maintain full employment. Governments in Europe, Asia and Latin America took Fine Tuning to new heights. They created State companies that would manage vital sectors of the economy. Politicians granted the State full control over the commanding heights of the economy and the ability to orchestrate private sector activity to meet their goals. Although Simonsen and Reis Velloso believed in the free market as the essential engine of capitalism, they argued that Brazil needed a strong dirigiste policy in order to compensate for its dependency on foreign companies and the weakness of the Brazilian private sector.

Geisel and the economic team had a great synergy, with Simonsen albeit favoring a more orthodox formula than the one advocated by Geisel and Reis Velloso. Developmentalism was the order of the day and Brazil would continue to pursue a course of intense growth and ISI, reinforcing the Tripod and counting on vast supplies of oil and capital. The Miracle had to be kept alive at any cost; the economic and political prices of failing to do so were too steep.

There was one other alternative for Brazil that seemed less feasible.. In their book Global Capitalism and Commodity Chains, Gary Gereffi and Miguel Korzeniewicz discussed the distinction between what they called a Producers Driven Chain (PDC) and a Buyers Driven Chain

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(BDC). A Producers Driven Chain was exactly the kind of economic model that Brazil was fostering, by slowly ending its imports and fostering exports based on domestic and foreign industries and technology. By contrast a Buyers Driven Chain was the model adopted by China and the Asian Tigers, which relied initially on the ability to attract foreign investment and technology in order to sell to buyers’ niches in developed world markets.\textsuperscript{204}

At the beginning were lower value manufactures such as garments, but later came cars and other more sophisticated products.\textsuperscript{205} The advantage of this model was the fact that it was less energy intensive at its inception, since lighter industries were at the center of production. Producers Driven Chains, or traditional industrialization, were energy intensive, demanding oil and electricity. Producers Chains also caused the demand for cement and steel to soar, both demanded high consumption of oil, which obliged the country to import even more oil in order to satisfy the needs of heavy industry.

On top of that, Producers Chains also caused great demand for capital and heavy machinery, both of which were extremely expensive given Brazil’s lack of savings and the need to capture dollars in the international markets. The country was exposed to any sudden swing in the global lending market, especially in London and New York. Meanwhile, in the Buyers Driven Chain, technology and capital were bought by the foreign company that was hiring a local

contractor at their own expense, which in many ways was much less of a financial burden to the hosting nation.\textsuperscript{206}

By the mid-1970s the global economy was changing quickly, in spite of the instability brought about by the oil shocks and the inflationary surge that followed the end of the Gold Standard. The third Industrial revolution was less about heavy industries but rather the mastery of science, capital and services. These industries were less intensive in terms of oil and labor, but required a highly skilled labor force and vast amounts of capital.\textsuperscript{207} This opened a series of new possibilities for developing countries, since heavy industries were moving away from the United States and Western Europe, running away from unionization and higher labor costs.

However, what was cheap labor to some would be considered highly compensated work for others in countries with lower incomes. But even more importantly, it was a shortcut to a more elaborate production chain. Brazil already had a sizable presence of foreign companies in its soil, it had a centralized government and a large unskilled labor force waiting to be employed. Despite its clear advantages, the Buyers Driven Chain was not feasible for Brazil, mainly because South Korean and Chinese governments were at that point keeping their labor forces on tighter leashes than that of the Brazilian dictatorship. Since Geisel was planning the \textit{Abertura}, he had to calculate where and when he was about to apply raw power. The option for a Buyers Driven Chain model would have necessarily implied a major crackdown of the unions and the little opposition that was still left in the country. That would have obliged Geisel to concede on the Hardliners’ demands, halting the \textit{Abertura} and extending authoritarian rule.

\textsuperscript{206} Idem.  
Finally, there was the vital geographical issue. Brazil was not as distant from Europe and the United States as China or South Korea. The problem was that before starting major export operations towards the Western Hemisphere, China and South Korea had first expanded their Buyers Driven Chain model with Japan, Taiwan and Hong Kong. Those countries were a generous source of capital and technology and represented the entrance markets for Chinese and Korean BDC goods. No other country in the Americas or Western Europe was ready to play the role of Japan or Hong Kong to Brazil as a source of credit and as a test market for BDC products, before the jump towards more mature markets.

Given Brazil’s constraints, Geisel could have opted for a smaller version of the Buyers Driven Chain based on Special Economic zones close to the shore in the southeast. He could have reinforced the foreign section of the Triple Alliance, working in tandem with the multinationals that were already in the country, at least until oil could be imported on a large scale once again. But, Geisel and his economic team still preferred to stuck to the idea of a more traditional model.

On top of that, as has been previously argued, although Geisel was not against foreign investment, he did not fully trust the foreign companies as Brazil’s partners. This made him reluctant to center his developmental plan on foreign companies and businessmen. Geisel’s core belief was that if Brazil was to join the select group of developed nations, it had to do so in the old fashioned way meaning domestic industries, export of manufactured products, strong internal
markets and the government as the maestro. As Geisel said in his oral testimony to the historians of the Getulio Vargas foundation: “this whole talk of modernity- it’s bullshit to me!”

In deciding against a halt in Developmentalism and in failing to understand the huge changes that were taking place in the world economy, the decision made by Geisel and his economic team was to hold the course. That meant growth and the development of heavy industries at any cost, and they were sure the cost would be pretty high, especially in terms of oil. Taking into consideration the severe constraints upon the Brazilian economy, the course of action they selected was probably the riskiest one. But Geisel and his team were myopic in their views and could not see another way. Following the current model was unsustainable given all of the problems with debt, oil, productivity and inflation. While most of the nations on earth were facing huge recessions after the 1973 Oil Shock, Brazil decided to move ahead full throttle.

Without doubt, Geisel’s concerns about demography and the Abertura were justified, but the situation did not present any easy solutions. In the absence of a straightforward solution they would try to create one, at huge financial and human costs to the Brazilian nation. In one of the most decisive moments in Brazil’s economic history, Geisel’s A-team decided to behave like the gambler who is about to lose everything in a game of cards and put on the table everything they have in the hope that one perfect sleight of hand may redeem them from a whole night of losses. By March 1974, the game was on, and the destiny of 110 million hinged on the wisdom of their bet.

2.3 The Offensive - Geisel’s Attempts to Restore Economic Balance During the Oil Shocks

In making their choice on which development model to follow, Geisel, Simonsen and Ueki had their hands full regarding the challenges that were ahead. The cabinet understood that in order to create a substantial export drive, vast quantities of oil and capital would be needed. On one of the few occasions that he complimented Delfim Netto publicly, Geisel said he agreed with Delfim’s theory on the use of capital. The idea was pretty simple: if other nations had a surplus of capital, Brazil was right to use the foreigners’ surplus in order to develop. If everything moved according to the plan, one day Brazil would become a developed nation with its own capital surplus. The goal was to obtain even more money from the Eurodollar market, established in London, and through several other syndicated loans from banks in the United States. Awash with petrodollars from OPEC nations, there was a surfeit of credit for those who wanted to take advantage of it. Due to higher global inflation at that time, the actual interest rates were much lower than under normal circumstances. In other words, borrowing heavily was seen as a harmless activity, despite the fact that the Brazilian standing of foreign debt jumped from US$ 3.4 billion in 1967 to US$ 20 billion in 1974. Therefore, Brazil would finance its purchases of oil, capital goods and services with foreign credit. As long as cheap credit was available, Brazilian growth would be strong, or so the government thought.

209 Idem.
211 International Monetary Fund. (1974) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1974 Article XIV consultation. SM/74/124. p. 17
Once the problem of financing was considered resolved, energy took its place as the main challenge facing the country’s development possibilities. Shigeaki Ueki, the new Energy Minister, wanted to pursue a broad and bold initiative whereby instead of solely focusing on oil and hydropower as had been the approach of previous governments, Brazil would now use its financial leverage to rapidly develop a range of different energy solutions. The Ministry of Energy would foster not only an expanded search for oil within Brazil and the construction of mega river dams (Itaipu), but also would try to develop coal, shale oil, sugar cane, ethanol and nuclear power at the same time.

By the end of the Geisel administration in 1979, the Brazilian government would be involved in more than one hundred different projects in the energy sector, at a total cost of US$ 24 billion. Such a sum of money spent in such a short period demanded considerable coordination within different government ministries and the creation of new government agencies that would be responsible for moving such projects forward. During the Geisel administration about fifty new state companies were created (Medici created ninety-nine) in order to deal with all of the development issues. In the realm of energy the highlights were the creation of Nuclearbras (nuclear power agency), Proalcool (Ethanol development) and Itaipu International as a joint venture with Paraguay. According to Ueki, the times demanded ambitious thinking and the pursuit of energy independence.\(^{212}\)

The redistribution of powers and the coordination with other important branches of the Brazilian state would be pivotal for the Geisel-Ueki plan. Shigeaki Ueki would concentrate all of the coordination of the oil policy in the hands of Geisel and himself. During the Medici admi-

istration they hijacked the control of the oil policy from Delfim Netto, Antonio Dias Leite (Energy minister) and the National Oil Council (CNP), then run by General Araken de Oliveira. In order to make sure that he and Geisel would control the levers of oil policy, Ueki picked two known weak players for Petrobras and CNP. They would be run by Generals Araken de Oliveira and Oziel de Almeida respectively, Almeida himself a notorious loose cannon. Every major decision regarding Petrobras would go through directly through Ueki and Geisel. The same applied for cooperation with the Petrobras technocrats such as Haroldo Ramos (Exploration), Carlos Alberto Scholl Isnard (Finance) and Carlos Sant’Anna (Commercial), all of whom were seasoned Petrobras workers whose abilities had been tested during the First Oil Shock. Ueki and Geisel certainly trusted their Troika at Petrobras more than Araken de Oliveira and Oziel de Almeida.

One of the main points of the Geisel oil strategy was the continuity of the alliance between Petrobras and the Foreign Office (Itamaraty) that he had assembled himself when he was president of the state oil company in partnership with the former Foreign Secretary Mario Gibson Barboza, in 1972. The cooperation between Petrobras and Itamaraty had been a huge success up until that point. With the help of Itamaraty, Petrobras had gained a global profile, providing a range of different benefits including scientific cooperation with the United States, France, Japan and Great Britain and major exploration projects in Iraq, Algeria, Libya and Iran. Such an aggressive strategy for foreign suppliers was a huge opportunity for Itamaraty to expand its reach, in expanding its policy towards the Middle East and Africa and improve Brazil’s global profile. The alliance between Itamaraty and Petrobras transformed every Brazilian diplomat into an oil

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agent, helping to mediate profitable oil deals and at the same time create the necessary new markets for Brazil’s export drive.

In order to guarantee the continuity of the alliance and expand the profile of Brazilian diplomacy under the principles of a more autonomous foreign policy, Geisel chose the former ambassador to Argentina, Antonio Azeredo da Silveira. Geisel had a penchant for bold, patriotic and ambitious men, qualities that he saw in himself. When manifested in others these attributes generated the kind of synergy he liked to have with his subordinates, creating an environment of cooperation and camaraderie in his cabinet. Azeredo da Silveira was a veteran diplomat who was a passionate defender of the Independent Foreign Policy (PEI), which involved the assertion that a nation as big as Brazil should not abide by the bipolar logic of the Cold War, the world was more complex than that. Brazil’s priority should be its economic development and the alleviation of poverty through a more modern and wealthy economy.214

According to Silveira’s view, a strong national industry selling manufactured goods boosted by a strong internal market was the goal that Itamaraty had to help Brazil to achieve. Azeredo da Silveira favored closer relationships with Latin American, African, Middle Eastern, Asian and the European Communist countries. In his view these were the countries that could provide the markets where Brazilian manufactured goods could be directed and absorbed. The United States and Western Europe were still pivotal, but Brazil could not idly wait for the United

States to decide which course was better for Brazil or to fully open its markets to Brazilian products. As Silveira loved to say: “Brazil is not Honduras! Brazil cannot behave like Honduras!”

In the broader perspective he was correct. The early days of the Cold War had represented a straightjacket for Brazilian foreign interests. Moreover, it created within the country a traumatic political division between nationalists and pro-western factions that manifested themselves in the civil society. Itamaraty was not immune to that and some saw Silveira as a “dangerous nationalist,” which was a euphemism for “Communist.” Despite all of the ideological change, Brazil was developing a more mature and complex foreign policy since the later days of the Costa e Silva administration and now Geisel aimed to go even further than Medici with Silvera the perfect person lead the country’s nationalistic diplomacy to the next level.

By 1974 Brazil was importing around 80% of the oil it consumed and 95% of all imported oil came from Africa or the Middle East. By coincidence or not, those were the markets towards which the Geisel export drive was aiming in order to keep the balance of payments under control. Brazilian government models predicted that by the early 1980s Brazil would be importing more than 1.2 million bpd of crude oil if the economy kept expanding at the rate of the early 1970s, which was an average annual GDP growth of 12%. Taking into consideration the enormity of the task and the unwillingness of the government to adopt a major rationing program

\[\text{References:}\]
\[\text{Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry. Pp.107-133.}\]
\[\text{Veja , O novo milagre Brasileiro. December, 1974.}\]
or rebalance the economy though a recession, Itamaraty had three main goals regarding the oil policy:

a) Help Petrobras to guarantee a steady oil supply in a time of shortage.

b) Look for joint-ventures with oil producers (OPEC) in order to secure adequate oil supplies at a better price.

c) Use trade agreements in order to create new markets for Brazilian exports (manufactures + commodities).

None of these tasks were easy, since after the Oil Shock of 1973 OPEC seemed to be stronger than ever. During that time OPEC controlled 52% of the world oil market share and most industrialized countries were running heavy trade deficits with those very same countries. 219 Much of the world wanted to export to Saudi Arabia, Iran, Kuwait, Venezuela and Iraq. Brazil would have to be very competitive in order to pose a challenge to the developed countries in the fight for a trade share in the Middle East and Africa. Initially, the general plan was to keep following what had been decided upon at the Rome Seminar in 1972. 220 The pursuit of joint ventures where Brazil obtained preferential access to supplies and better prices in exchange for exploring certain areas within the host nation was still considered to be the best solution. Geisel favored that course of action in order that Petrobras should be able to gain valuable international

220 See page 80
experience in international deals and exploration. Experience, Geisel believed, would be invaluable when Brazil discovered oil on its own shores.\footnote{221 Castro, Celso, Maria Celina Soares d’ Araújo, and Alzira Alves de Abreu. 2002. Dossiê Geisel. Rio de Janeiro, Brasil: FGV Editora. p.163.}

Another important point was that Brazil created a common bond with the supplier, creating a stock of goodwill in case another shock came into being. One vital component of the Petrobras/Itamaraty strategy was to deal not only with OAPEC’s members like Saudi Arabia, but also to engage more with countries that were considered by Western diplomats to be volatile such as Iraq, Algeria, and Libya. By adopting a more pro-Arab stance and opening new diplomatic posts in those countries, Brazil was achieving meaningful results in its partnerships with Iraq and Algeria. Despite the fact that oil prices quadrupled between 1973 and 1974, thanks to its partnerships in the Middle East, Brazil’s oil supply was unaltered and the economy was not brought to a halt.

At the time of Geisel’s inauguration, the diplomatic world was dominated by detente, where the United States and the Soviet Union found a possible coexistence and lowered the risk of nuclear Armageddon. Silveira was willing to make the most of this new dynamic, where Brazil felt freed from some of the restrictions of Cold War politics and could finally explore every conceivable opportunity. Brazil was about to establish its own Realpolitik. The only ideology allowed was the ideology of development, which had to be pursued in a global action. The diplomatic strategy implemented during the Silveira years at the head of Itamaraty would be called \emph{Pragmatismo Responsavel} (Responsible Pragmatism). The concept was self-explanatory and represented the maturity of Brazilian diplomacy as a global player. For many analysts, it was the
culmination of the goals set by Afonso Arinos and San Tiago Dantas, who in the early 1960s argued for a more independent foreign policy as a sign of an enhanced Brazilian position in the world.  

It is easy today to affirm that an independent foreign policy made common sense for Brazil, but by the 1970s sustaining such a position risked attracting opposition from the country’s hardline conservatives. Responsible Pragmatism faced several powerful adversaries in Itamaraty, in civil society, and above all, in the army. Silveira’s foreign policy walked on a tight rope, since some of his ideas were perceived as coming from communist influence. As shown by Leticia Pinheiro’s seminal work on Geisel’s foreign policy, the president was a vital intermediary in dealing with more conservative sectors of the Brazilian military, creating the necessary room for Silveira to develop a more autonomous foreign policy. It was the efficiency of this decision-making process that allowed the Geisel administration to achieve important goals during his time in office, such as the recognition of the People’s Republic of China (1974) as well as the communist government in the newly independent Angola (1975).

Each one of these complex decisions was surrounded by cries of “communism” coming from military hardliners and pro-US elites. Publications that were closer to the conservative perspective, such as Veja and O Estado de Sao Paulo, ran frequent stories asserting that Silveira’s ideas were wrong and that Brazil’s position as an ally of the United States was in jeopardy. In order to demoralize his policies, both publications published stories claiming that the deals that


223 Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry. Pp. 103-133.
Silveira sought in Africa and the Middle East were either botched or worth almost nothing. The *Estado de Sao Paulo* daily even created the adjective “Silveirismo” which allegedly stood for incompetence and a “blind love” for the Third World.

At some point, even a certain racism entered the public fight between Silveira and *Estado de Sao Paulo*. The daily tried to establish a link between his autonomous external policy and an alleged African ancestry within his family. *Veja*, for its part, argued that a diplomacy that had pragmatism at its core was a diplomacy that lacked values. And for *Veja*, the Cold War was above all a contest between two sets of values, where the Christian-Western civilization (to which Brazil belonged) was fighting a “godless”, “Asiatic” and “communist dictatorship”.

Despite all of this resistance, Geisel was able to act as a buffer for the diplomats, defending their line of action within military circles. As shown by Pinheiro, the president always had the edge and showed the necessary flexibility to keep the situation under control and allow Silveira to write one of the most interesting chapters in Brazilian diplomatic history.

The Geisel-Silveira policy for the Middle East was essentially an oil policy. As we have seen before, they inherited an interesting set of initiatives started by the former Foreign Secretary, Mario Gibson Barboza, which gave them a solid base from which they could expand upon. Brazil essentially followed with the plan of opening new embassies in several countries in the

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225 Idem.
226 *Veja*. “Os Equivocos de uma crise” December 19th, 1973. *Veja* here is used to demonstrate its frequent disagreements with a Third-World oriented foreign policy, which the magazine perceived as misguided.
227 Pinheiro, Leticia. 2013. *Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry*. Pp. 103-133.
Middle East and Africa. Saudi Arabia, Kuwait, Libya and Bahrain were among the important new diplomatic posts opened by Itamaraty in order to reinforce its partnership with Petrobras.

Itamaraty’s goal was to serve as an advanced trading post for Brazilian products in the region, acting as an intermediary between Petrobras and the local oil companies and playing the important role of supplying Petrobras with accurate intelligence concerning the global oil market. This intelligence was vital for the company to decide on which suppliers they would focus on, where the best opportunities for joint-ventures were, and how Brazilian exports could be enhanced following certain oil deals.

Together with the more practical acts of opening diplomatic posts and gathering intelligence, Silveira decided that Brazil should move decisively on a pro-Arab course.228 From this point forth, Brazil would be a firm advocate important votes that were held in the United Nations, such as the motion where Zionism was considered to be a form of racism.229 On top of that, after 1975 the Brazilian government started negotiations with Yasser Arafat in order to open a Palestine Liberation Organization (PLO) embassy in Brasília. The support for the PLO was referenced by Saudi diplomats several times in their meetings with their Brazilian counterparts while debating oil deals. Since Brazil had contracts with Aramco and Petrofina (State company)

229 United Nations General Assembly Resolution 3379, adopted on November 10, 1975 by a vote of 72 to 35 (with 32 abstentions), "determine[d] that Zionism is a form of racism and racial discrimination". The vote took place approximately one year after UNGA 3237 granted the PLO "observer status", following Yasser Arafat’s "olive branch" speech to the General Assembly in November 1974. The resolution was passed with the support of the Soviet bloc and other then Soviet-aligned nations, in addition to the Arab and Islamic majority countries. The determination that "Zionism is a form of racism and racial discrimination", contained in the resolution, was revoked in 1991 with UN General Assembly Resolution 46/86. For the full version access: http://unispal.un.org/UNISPAL.NSF/0/761C1063530766A7052566A2005B74D1
worth 300,000 bpd, almost 50% of all the Brazilian imports, suggestions from the Saudi camp received close attention from the Brazilian delegation. That was not an easy decision for Silveira to make, since Brazil was one of the early friends of Israel upon its foundation and had become home to a large and prosperous Jewish community. But pragmatism was the objective, and in order to guarantee its supply of oil and continue the industrial push Silveira was willing to sacrifice long-standing Brazilian alliances with Portugal and South Africa. As the saying goes, desperate times demand desperate measures.

Another vital aspect of Responsible Pragmatism was the expansion of Brazilian trade in the markets of Africa and the Middle East. Geisel’s bet on the continuity of the Miracle was based on Brazil’s ability to conquer new markets, especially for manufactured products. If Brazil could not sustain a respectable export drive, paying for all the imports of oil and credit would be simply impossible. Therefore, Brazil needed to be proactive and bold in its trade initiatives. In that area, Petrobras profited enormously from the success of its international operator for joint ventures, Braspetro.

Braspetro had achieved successful exploration results in Iraq and Algeria in partnership with INOC and Sonatrach. In trying to emulate Braspetro’s success, Petrobras created a new trading subsidiary called Interbras. The trading company would use Petrobras’ global oil deals as a wedge to open markets for more diversified Brazilian exports. The financial power and global reach of Petrobras would be used by Interbras, which represented a giant pool of Brazilian exporters of manufactured and agricultural commodities alike. In theory this sounded like a great

230 BRASEMB Jeddah. (12/01/1974) para Secretaria de Estado. Petroleo, Missao Nogueira Batista. 663.63(E14)
idea, since it would open new markets for Brazilian products, strengthening the export drive and making Brazilian exporters more prosperous.

However, some opponents of Interbras regarded it as another intervention by the government into the market, repeating roles that were already being performed by private trading companies. Given its size and financial clout, Interbras would establish a near monopoly of the trade in Brazil, making civilian supporters of the military regime uneasier with its posture regarding free enterprise. Despite this opposition, Geisel moved ahead with Interbras, which started its operations in November 1975. The veteran Petrobras executive Carlos Sant’Anna was the first Interbras president. Arab and African buyers were skeptical about the potential of Brazilian industrialization and the quality of its products, but that did not stop Interbras from trying to embark upon a successful endeavor.

By 1978, Interbras had created a pool of thirty white-line goods in Brazil called Tama (Earth in Brazilian indigenous language). All thirty companies would sell their products under the Tama brand and Pele would work at the forefront of a huge publicity campaign designed by Interbras to promote Tama products.\textsuperscript{231} Pele served as a symbol of Brazil’s best through his involvement in this highly successful export campaign. Nigeria was the first market for Tama products, and consumers realized that Brazilian products were very often better adapted to the tough conditions of the Third World such as oscillating electric currents, high temperatures and high humidity. Brazil also exported all kinds of weaponry to Third World countries. The companies responsible for this component of the Brazilian export portfolio were Embraer (aircraft) and

Engesa (tanks and armored cars). The various arms deals agreed to by Brazil would be an important instrument in fostering better oil partnerships with the producing countries while demonstrating how Brazilian exports had achieved a new level of sophistication.²³²

Soon after the 1973 Oil Shock, Brazil established the two pillars of its oil supply for the next ten years, Saudi Arabia and Iraq. This was a clear symbol of how Brazil was ready to be truly pragmatic, as it was impossible to find two countries more disparate in their values than Iraq and Saudi Arabia. While Iraq was a socialist country ruled by the Baath party, Saudi Arabia was a conservative theocracy that followed Wahhabism. Whereas Iraq believed in the strong hand of the government to conduct its oil deals at INOC, the Saudis relied upon a major foreign oil conglomerate, Aramco. But, as a testimony to its pragmatism and resiliency, Brazil managed to achieve substantial deals with both countries, although in different ways.

Saudi Arabia represented what we could call Brazil’s “guardian angel” in the oil market. As seen in chapter 1, the Saudi Chancellor Al Sakkaf was a great friend of Brazil and very close to president Geisel since his days in command of Petrobras. Saudi Arabia guaranteed Brazil oil supplies in the middle of the 1973 Oil Shock and was always willing to mediate with the Majors that ran Aramco, so Brazil could obtain improved oil prices. The Brazilian ambassador in Jeddah, Mr. Gurgel, understood that the future could promise a prosperous partnership, since after 1977 the Saudis would guarantee a higher stake in the transition to full Saudi ownership of Aramco that was scheduled to be completed by 1980.²³³

Veja, “Jogada na África”. April 24th, 1978. Veja here is used to demonstrate its frequent disagreements with a Third-World oriented foreign policy, which the magazine perceived as misguided.

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Meanwhile, given Brazil’s dependency on Saudi oil, the government’s goal was to buy more oil from Petrofmin (State company), which was able to offer better prices than Aramco. The Saudis were a bit wary of accepting such a deal, knowing that the Brazilians were among the most profitable of Aramco’s clients. Certainly the Saudis wanted to sell more oil to Brazil, but they were even less willing to enter into a fight with the Majors. Therefore, the result was a stalemate between Petrobras, Aramco and Petromin. The Saudis were able to make a concession and sell 26,000 bpd from Petromin to Petrobras, but nothing beyond that. The administration’s goal for deals with the Saudis, which was to have an agreement of between 50,000 and 100,000 bpd shipments from Petrofina, would never materialize during Geisel’s time in office.234

In spite of the fact that Saudi Arabia continued oil shipments to Petrobras from 1974 until 1978, Brazilians maintained a certain grudge against the country. This was based on the contention that with windfall profits after the price surge that followed the 1973 Shock, Brazil thought it would be able to get a larger share of the contracts put forward by the Saudi government for its own national development plan. It was probably the most ambitious of all development plans, and Brazilians believed they had done enough to benefit from some measure of preferred status. However when it came to signing contracts on construction, arms, manufactured goods, and services, Saudi Arabia preferred to deal with the United States and Great Britain, its oldest allies. Although Brazil managed to sell around 2,189 cars in 1974 and participated in smaller construction projects in the country, the overall outcome was a disappointment.235

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Meanwhile Iraq presented another opportunity for Brazil to fulfill its foreign policy ambitions. At a pivotal joint meeting between Petrobras and Itamaraty held in February 1975, the subject of Iraq headed the agenda. By the mid 1970s, Iraq was also pushing ahead with a development drive of its own. The schism between Iraq and its Western partners created a significant opportunity for Brazil. Moreover, Iraqis felt a great debt of gratitude towards the Brazilians when they did not abide by the pressure that from the oil Majors and Petrobras continued purchasing oil from INOC. Iraqis were especially involved in large scale construction projects, an area where Brazil was extremely competitive. Construction companies such as Mendes Junior, Camargo Correa and Odebrecht became industry leaders during the years of the Miracle.236

In order to expand their presence in the Iraqi market, it was decided by Itamaraty and Petrobras that would start a series of new initiatives. Among them were the establishment of a flying route between Rio de Janeiro and Baghdad, expanded participation in Iraqi trade fairs, an increased presence of Interbras in the country, and further participation of Braspetro in joint-ventures with INOC.237 In the realm of joint-ventures, success was achieved by Braspetro after the signing of a closer cooperation deal with INOC in 1974.238 Braspetro personnel located one of the largest oil fields ever registered near Basra, in southern Iraq. The discovery of the

Majnoon field, a huge reserve with an estimated 38 billion barrels of oil was the largest oil discovery of the 1970s.  

The Majnoon finding was great triumph for Petrobras abroad and also helped to vindicate the company’s domestic strategy. Since Petrobras could not find an oil field as rich as Majnoon in Brazil, some doubted its engineers expertise in locating oil. For many, including Geisel and Ueki, the Majnoon finding was the proof that if Brazil had oil somewhere, Petrobras engineers would find it. But, that pivotal finding did not happen by chance. Braspetro learned from the majors how to conduct the search and exploration of an exploitable oil field. Their infrastructure in Iraq was state of the art and operated by Brazil’s best engineers and geologists, most of whom with had studied specialized courses in the United States, a country that cooperated closely with Petrobras in the realm of oil technology.

Braspetro also acquired a luxury villa and school for the Brazilian workers in Iraq, with Brazilian teachers exclusively for company staff. When Brazilian workers needed any medical assistance, Braspetro offered comprehensive care in Europe, but not in Iraq. Workers could receive assistance in Germany, France or in the United Kingdom. Braspetro provided the very best and was able to deliver results. For several analysts in the Brazilian government, finding the Majnoon field was like manna that fell from heaven, but developing the entire field was more of a daunting task for Braspetro, given its costs.

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239 Idem.
241 Ibid. p.18.
Following Majnoon, several other branches of the Brazil-Iraq trade were developing quickly. Brazil was buying more oil from INOC, and in 1975 the value of Iraq’s oil exports to Brazil reached the symbolic mark of US$ 1 billion. The meetings in Paris between INOC and Petrobrás executives had become routine where oil purchases and construction deals would be arranged. The close relationship with INOC was a positive development for the Brazilian oil interests and by 1975 Brazil was buying oil with a US$ 0.20 discount per barrel with an extended 90 day window of time to complete payment, instead of the mandatory 60 days imposed by OPEC.

At their meetings in Paris, Interbras executives used the informal environment and agreed to cut American and European competitors from the Iraqi domestic market, including in the construction contractors. Even when Brazil lost out to an Indian company in a bid to supply iron pellets, the Iraqis found a way to compensate the Brazilians by creating another contract for the same product. A perfect example of how the Iraqis were willing to concede benefits to Brazilians, especially after the finding the Majnoon field, can be seen through the contentious issue of Brazil’s subsidiary of Volkswagen in Iraq.

The presence in Iraq of Volkswagens built by the West German company’s Brazilian subsidiary was an important trade tool towards Iraq. Some models came partially assembled from Brazil and were finished in an Iraqi plant. Vehicles such as Beetles, Brasiliás and Kombies (van) met specific Iraqi needs. These models were prepared to deal with the tough climate of Iraq.

245 Ibid. p.4.
246 Ibid. p.3.
and even had luxuries that were not available for the Brazilian consumers, such as air conditioning.\footnote{Preiss, Jose Luiz. 2013. Brasil e Argentina no Oriente Medio: do pos-segunda guerra mundial ao final da guerra fria. Porto Alegre, Pontificia Universidade Catolica do Rio Grande do Sul. P.205.}

Iraqi government officials discovered that Volkswagen was building Audis in Israel, in partnership with a local company called Sakrvel. After threatening to terminate all deals with the Brazilian branch of Volkswagen, the Iraqis accepted Brazilian explanations and let the deal remain.\footnote{18/03/1976. Grupo de trabalho interministerial para acompanhamento de iniciativas brasileiras nos paisaes produtores de petróleo. 663.63 (00) Pp.1-2.} It was also an old Iraqi trade strategy, to play hardball and threaten the Brazilians in order to get better prices for their products, but in the end the deals were always completed.

Cars were only the beginning. Contracts for soybeans, sugar, and air conditioners brought by Interbras would become major staples of Brazilian exports to Iraq.\footnote{Vizentini, Paulo Gilberto Fagundes. 1998. A politica externa do regime militar brasileiro: multilateralizacao, desenvolvimento e construcao de uma potencia media, 1964-1985. Porto Alegre, RS: Editora da Universidade, Universidade Federal do Rio Grande do Sul. P.289.} The culmination of that alliance came on October 1978 when the construction company Mendes Junior won one of the contracts to build the Baghdad-Hsaibah railway, a contract worth US$ 1.2 billion. The victory of such an important bid was proof that Brazil’s presence in Iraq was consolidated in a mature and complex relationship, which was achieving the results sought after by the Geisel administration. This relationship was so close that Ueki and Silveira knew Mendes Junior had won the contract two years before the official announcement.\footnote{25/01/1977. Ministro de estado das Relações exteriores Antonio Azeredo da Silveira para Shigeaki Ueki, Ministro das Minas e energia. 663.63 (B46) p.1} By 1979 Iraq would surpass Saudi Arabia as Brazil’s major oil supplier, with a 48% share of Brazilian oil imports.\footnote{Veja. “O preço e politico.” March 14th, 1979. Veja here is used to demonstrate its frequent disagreements with a Third-World oriented foreign policy, which the magazine perceived as misguided.} By then Iraq’s new ruler,
Saddam Hussein, would demand a different kind cooperation from Brazil. It would involve enriched uranium, ballistic missiles, and other dubious arrangements. Given Brazil’s addiction to oil, cooperation was the only way out.

During the Geisel administration, the diversification of oil suppliers was as important as having close relations with the main ones. With that in mind, Azeredo da Silveira and Ueki engaged in global oil diplomacy looking for improved deals, since Iraq and Saudi Arabia were able at least to guarantee a regular supply. With the success of its deals with Saudi Arabia and Iran, Brazil felt more confident to engage in riskier ventures with all sorts of players.

Deals with Iran, Libya, Nigeria, Venezuela, Algeria, and even the USSR became pivotal for the Brazilian oil supply, allowing its industrial expansion to move ahead. Brazil had tried to engage Iran in an expanded oil deal since the early 1970s, with virtually no success. Braspetro was allowed to enter the country by joining forces with the Mobil oil exploration team there, in a fairly profitable venture. The scenario was aided greatly by the fact that the Iranian Finance minister, was a close friend of the Brazilian finance minister, Mario Henrique Simonsen. Another important turn of events occurred after the 1973 Shock when the Shah was engaged on an extravagant spending spree that Brazil aimed to take full advantage of.\footnote{Yergin, Daniel. 1991. The prize: the epic quest for oil, money, and power. New York: Simon & Schuster. pp.615-635.}

By 1976, Iranian and Brazilian diplomats were frequently meeting in Paris aiming to achieve larger oil and trade deals.\footnote{18/03/1976. Grupo de trabalho interministerial para acompanhamento de iniciativas brasileiras nos países produtores de petróleo. 663.63 (00)Pp.1-7} By 1976, Iran started making significant soy bean purchases
from Cortijui Cooperative, in the state of Rio Grande do Sul. Itamaraty had also identified sugar as another promising staple that Iranians were interested in. Sugar and soy provided the opportunity that Brazilians were eagerly waiting for to obtain more oil and export manufactured products to the subjects of the Peacock throne. The culmination of that policy was achieved in 1977 when the Iranian Minister visited Brazil and signed a huge trade deal. Brazil was prepared to buy US$ 5 billion in Iranian oil until 1979 while the Iranians would purchase US$ 1.5 billion of Brazilian products during the same period. Overnight, Iran became one of the largest Brazilian oil suppliers, with regular oil shipments between 150,000 and 200,000 bpd provided by NIOC.

The deal with Iran was seen as a huge victory for the Geisel administration, since Iran was perceived as a rich and stable partner that could engage in more complex deals that would help the Brazilian export drive. The only drawback to the deal was the fact that Brazilians would certainly buy their US$ 5 billion in oil, but it would be harder for Iran, another developing nation, to buy US$ 1.5 billion worth of soy and sugar. Despite the fanfare at the deal’s signing, the Iranian agreement eventually revealed the clear limitations of the trade strategy implemented by the Geisel administration, since it was almost impossible to match increasing oil imports with the selling of agricultural commodities and white-line goods. This was especially so when the trade

254 Veja, “Fazendo amigos”. July 7th, 1977. Veja here is used to demonstrate its frequent disagreements with a Third-World oriented foreign policy, which the magazine perceived as misguided.
256 Veja, “Parceiro Rico”. June 29th, 1977. Veja is used here is order to demonstrate how Brazil was eager to establish new partners in the Middle East.
257 Idem.
partner was an economy at a similar level of development as Brazil and there were clear con-
straints upon the extent to which the deal could live up to the high expectations that surrounded it.

Two important alliances forged during the 1970s were with Kuwait and Algeria. Brazil was once again following a policy of pursuing deals that included more than just oil and offset trade deficits with oil suppliers. Since the late 1960s, Brazil had been obtaining more oil from Kuwait, one of the largest oil suppliers in the Middle East in that period. For Brazilians, Kuwaiti oil offered quality at a competitive price, and the executive board of the Kuwaiti national company KNPC frequently demonstrated good will towards Brazilian oil needs. Brazilian oil imports from Kuwait jumped from 33,000 bpd in 1970 to 94,000 bpd in 1975.²⁵⁸

This reflected not only the increase of Brazilian oil imports in an environment of eco-
nomic growth, but also revealed how Kuwait had become one of the country’s closer partners within OPEC.²⁵⁹ By 1972, Brazil was only buying oil from KNPC and not from the majors that operated in the country (Gulf and BP). Brazilians, in turn, were interested in seeing Kuwaiti petrodollars recycled in Brazil, advancing joint-ventures for Braspetro with KNPC, and the opportunity to participate in the ambitious Kuwait II National Development Plan. By 1975, at the peak of the Brazilian purchases in Kuwait, Itamaraty and Petrobras started having second thoughts

²⁵⁸ 02/12/1975- BRASEM B Coveite. intercambio Brasil Coveite. Conversacao representantes da BRASPETRO no Coveite. 663.63 (E5) Pp.1-4
about their close alliance with Kuwait. KNPC only offered areas that had already been verified by Hispanaoil as barren, something that was later verified by Braspetro’s geologists.\textsuperscript{260}

Despite all the attempts made by the Brazilian diplomats and the Planning Minister Reis Velloso, Kuwait could not be persuaded to recycle their petrodollars in Brazil. They still preferred to use the American or British financial markets, a huge source of disappointment for Brazilian authorities.\textsuperscript{261} By the end of 1975, there was a great debate within the Geisel administration on how to deal with the Kuwait situation and its place in the Great Oil Diplomacy. Shigeaki Ueki favored continued purchases from KNPC, even if by 1976 their prices were not as competitive as before. Minister Reis Velloso and many diplomats took a different view, contending that Brazil should suspend its purchases from KNPC at once in order to end their large trade deficit with Kuwait. Ueki did not change his mind and kept pushing the issue yet in the end Itamaraty and Reis Velloso won and Brazil unilaterally cancelled its deals with Kuwait.\textsuperscript{262}

Algeria had been a close oil partner Brazilian since 1967, when Petrobras established its first joint-venture abroad with Sonatrach, the Algerian state oil company. As seen in chapter one, this relationship was not always congenial, but for most part worked well for both countries. Algeria was able to provide oil to Brazil at important moments, such as the deal that guaranteed essential oil shipments to Brazil during the peak of the First Oil Shock, in 1973. Braspetro was executing important findings in the country, such as the Ras Toumb oil field, with the capacity to

\textsuperscript{260} 02/12/1975- BRASEMB Coveite. intercambio Brasil Coveite. Conversacao representantes da BRASPETRO no Coveite. 663.63 (E5)P.2
\textsuperscript{262} 02/1976. Petrobras. Relacionamento Brasil/Kuwait na area do Petroleo. 663.63 (E5) Pp.1-3
02/12/1975- BRASEMB Coveite. intercambio Brasil Coveite. Conversacao representantes da BRASPETRO no Coveite. 663.63 (E5)P.2
provide around 4,000 bpd, a small field given that Brazilian needs were almost 700,000 bpd by 1976.

The bottom-line surrounding the deals with Algeria was not so much about oil, as it was about trade surpluses. Even after the important 1973-1974 deal, Brazil was importing only 20,000 bpd from Sonatrach. The sweetener behind this deal was the competitive prices that Algeria guaranteed until 1981 (around US$ 14.00 a barrel) and the prospect of channeling Brazilian products and services to Algeria. Since the late 1960s, Algeria had been increasing imports of Brazilian sugar, which was initially the greatest of the exports.

By 1976, the strategy of coupling oil and trade embarked upon in 1974 started to bear fruit. Brazil started to export to Algeria Volkswagen cars, 9 mm machine guns and other manufactured goods. On top of that, Brazil was exporting services to Algeria on a very large scale. Hidroservice and Steeple were involved in engineering projects, Villares and Montreal were responsible for assembling industrial plants, and the giants Camargo Correa and Mendes Junior in construction. The Brazilian subsidiaries of Chrysler, Volkswagen and Mercedes exported a large numbers of cars, trucks, and bulldozers for an expanding Algerian economy. Even the renowned Brazilian architect, Oscar Niemeyer, built the civic center in Argel.

Algeria was one of the few oil suppliers from which Brazil could extract a trade surplus. By the mid-1970s their trade was already close to US$ 175 million, a respectable amount at that

264 18/03/1976. Grupo de trabalho interministerial para acompanhamento de iniciativas brasileiras nos países produtores de petróleo. 663.63 (00) P.5
time, and Algeria’s trade was second only to Nigeria, which traded to the sum of US$ 200 million with Brazil. The oil deals with Algeria also were an interesting demonstration on how Responsible Pragmatism worked in practice. In 1969, when the American Ambassador Charles Elbrick was released from captivity after being kidnapped by Brazilian Marxist guerrillas, he was traded for more than twenty political prisoners. Those prisoners, some of the men most hated by the regime, were given asylum in Algeria. There were even some rumors that Algerian diplomats were helping to support the Brazilian urban guerrillas, rumors that fired up the hardliners within the Brazilian army.266

By 1974, Sonatrach was willing to open an office in Sao Paulo in order to better coordinate its activities with Petrobras. The hardliners were adamantly opposed to this, charging that Sonatrach’s office would be a facade for what they called “subversive activities”. Yet once again, with Geisel’s mediation, the hardliners were pacified and Sonatrach’s deal with Brazil lasted until 1981.267 The relationship ebbed and flowed, but the Algerian example is vital to understanding the kind of ideal partnership the Geisel administration was aiming to secure; this meant joint-ventures with state companies similar to Petrobras that could supply Brazil with affordable oil and the same time boost the trade of Brazilian products. If in the case of Algeria, success can be claimed, the results achieved in Nigeria, Libya and Ecuador were not as rewarding, and became increasingly troubling to Brazilian diplomats.

When Nigeria became independent from the United Kingdom in 1960, there were high hopes in the international community for the new nation. Because of its rich territory and large


population, many experts saw the country as poised to become one of the world’s fastest growing economies in the years to come. However, political instability and the Biafra War shattered those hopes. By the early 1970s, Nigeria’s ambitious plans seemed to be headed in the right direction with the end of the Biafra War and improvements in the country’s oil industry. The Oil Shock of 1973 gave provided the country with additional resources to provide for its 60 million strong population, as Japan and Great Britain became the largest purchasers of Nigeria’s high quality oil.

With a US$ 50 billion investment plan, it did not take long before Brazil had the opportunity to implement its formula of trade and oil. Since the epic Gibson Barboza African tour in 1972, it became of pivotal importance for Itamaraty to arrange a comprehensive oil deal with Nigeria. Moreover, Brazilian strategists like generals Meira Mattos and Golbery do Couto e Silva saw the sub-Saharan Africa as a vital area for Brazilian national interests, together with Angola and South Africa. But, several attempts to embark upon a joint-venture or expanded deals during the Medici administration failed because of corruption, lack of infrastructure in Nigeria, and the high oil prices the Nigerians liked to demanded.

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268 The Nigerian Civil War, also known as the Biafran War, 6 July 1967 – 15 January 1970, was a war fought to counter the secession of Biafra from Nigeria. Biafra represented nationalist aspirations of the Igbo people, whose leadership felt they could no longer coexist with the Northern-dominated federal government. The conflict resulted from political, economic, ethnic, cultural and religious tensions which preceded Britain's formal decolonization of Nigeria from 1960–1963. Immediate causes of the war in 1966 included a military coup, a counter-coup, and persecution of Igbo living in Northern Nigeria. Control over oil production in the Niger Delta played a vital strategic role. For further information on Biafra’s War see: Ekwe-Ekwe, Herbert. 1990. The Biafra war: Nigeria and the aftermath. Lewiston, N.Y., USA: E. Mellen Press.


When Geisel became president, the situation with Nigeria was quite surreal. The trade among the two countries stood at $200 million, from which Brazil held a large surplus. Brazilians were exporting manufactured products and services to Nigeria at a high rate. For example, Tama white-line goods had used Nigeria as its test market, with modest success. Even Fluminense, a popular Brazilian soccer team, went to Nigeria to play three friendly games as a marketing stunt for Tama. Brazilian construction companies and their contractors were doing well in Nigeria, as they were also in the rest of the developing world.

The Nigerian government constantly complained to Itamaraty about the Brazilian trade surpluses, but there was little that Brazil was willing to do at that point. The Medici administration’s policy was to combine trade and oil when it was good for both, not to sacrifice one at the expense of the other. The result of such a policy was that Petrobras was from 1970 until 1979 importing only 20,000 bpd from the Nigerians, with occasional purchases of 30,000 or 40,000 bpd that did not last long and were only made to cover for temporary losses in supply from other countries.

For Petrobras, Nigerian oil was becoming a complicated proposition by 1975. In one of their first joint-meetings Itamaraty and Petrobras, reached a consensus concerning the Nigerian situation. They recognized that the only way of compensating the Brazilian trade surplus was to increase the purchase of oil from Nigeria, because it was the only product Brazil needed from that country. But Scholl Isnard, Petrobras’ chief financial officer, complained about the necessity of finding a “sponsor” in the Nigerian government in order to guarantee to Brazil

272 04/04/1975- Reuniao de contacto entre o Itamaraty e a Petrobras.663.63 (B46)Pp.1-5

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the price and supply that they required. Fresh in their minds was the first attempt to secure a “sponsor” in the early 1970s, which had been botched by the former Brazilian ambassador Elcio Ertheim’s intermediary. This time, a new fiasco had to be avoided at all costs.

There was no more talk, at least in the available diplomatic documentation of a “sponsor,” and Brazil’s oil dealings with Nigeria did not improve over time. Nigerians insisted on charging at least 10% above regular OPEC’s prices, and the frequent price increases that occurred between 1973 until 1979 made the deals even more complex. While Nigerians from the state oil company NNOC were adamant about not granting discounts to Petrobras and were giving Braspetro a very hard time in terms of infrastructure and profitability, Interbras was actually trading successfully in the West African country. Brazilian diplomats were impressed by the wide variety of products being traded such as beef and steel plates.

Brazilian exports were expected to reach US$ 300 million by 1979, but Petrobras’ executive did not see how it was possible to buy US$ 300 million in oil from NNOC. In 1978, Nigerians finally agreed to concede a US$ 0.12 discount per barrel, which paved the way for Brazilian purchases of between 60,000 or 70,000 bpd. These new terms were expected to blossom in

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276 Ibid. p.4.
277 28/01/1977. BRASEMB Lagos. 663.63 (00)
1979, exactly the time of the Second Oil Shock, at which point the Nigerians had second thoughts, spoiling once again the relationship between both countries.\textsuperscript{278}

Another constant source of hope but also contention for Petrobras was Libya, then ruled by the mercurial dictator Muammar Qaddafi. Dealing with Libya and its amateurish diplomatic staff and oil company was not an easy task. Both were under the constant threat of Qaddafi changing his mind. Brazil held a reserve of goodwill with the dictator, since Brazilians had continued buying Libyan oil even at the peak of the Nelson Bunker Hunt crisis with the Western powers.\textsuperscript{279} After that, Brazilians and Libyans maintained close diplomatic contacts and an embassy was even opened in Brazil in 1974.

This commenced a honeymoon period between Braspetro and the Libya state company (LOC). Libya wanted Brazil to expand its purchases from Occidental oil and LOC from 8,000 bpd to somewhere around 50,000 bpd. In 1974 what could be considered the greatest moment in Brazilian-Libyan oil relations occurred. Braspetro was given two areas for exploration in Sertie and Muziq, covering an area of 20,000 km\textsuperscript{2}. It was a considerable investment for the Brazilian company, US$ 35 million for a 5 year exploration contract. In case Braspetro did not discover anything, they would be given another area or a larger oil contract under favorable circumstances.\textsuperscript{280}

The Libyan government later increased the fee to US$ 50 million, but Brazil remained onboard with what seemed to be a good deal for US$ 15 million. For a brief time in 1974 and

\begin{flushleft}
\textsuperscript{278} Idem.
\textsuperscript{279} 05/07/1974. Projeto de exploração de petróleo na Libia pela Petrobras. 663.63 (A26) Pp.1-2
\textsuperscript{280} Idem.
\end{flushleft}
1975, Brazil was actually receiving 50,000 bpd from Libya, which was very helpful for Brazilians, whose oil needs were getting close to 750,000 bpd. For two years Brazilians endured the antics and the oddities of Gaddafi and his oil minister, Mr. Jalloud. Once, the Brazilian delegation visited Qaddafi’s palace in Tripoli and he hurriedly greeted them, opening doors and talking nonsense before suddenly closing the doors and leaving the delegation shocked and wondering what had just happened. In the end, Libya’s erratic ways affected Braspetro, causing Itamaraty to complain to Qaddafi’s government about money owed to Brazil and oil contracts that had not been fulfilled. Ultimately the Libyan El Dorado never materialized and Braspetro retired upon the expiration of its five-year contract and Brazil kept its oil purchases from that country at 15,000 bpd, a modest quantity given the ambitious goals of the 1974 contract.

Ecuador was also a country of great promise by the early 1970s, even hailed by many analysts as Latin America’s Kuwait. Texaco and Occidental oil had been there for a very long time conducting prosperous exploratory operations, and it did not take long for Ecuador to form its own state oil company (CEPE), aiming to expand its output and markets. Since the Medici administration, trade with Latin America had become a priority. It was intended to be the focus of Brazilian manufactured exports and a source of trade surplus, in order to compensate for deficits elsewhere.

23/04/1975- Memorandum para o chefe do Departamento economico. Petroleo libio, organizacao de missao. 663.63 (A26)Pp.1-4. Some of the references for the Brazil-Libya documents were almost erased due to the action of time, which made the identification of its registration number almost impossible.
General Geisel continued that policy and made a significant effort to expand upon it, looking for new deals with Argentina, Peru, Colombia, Venezuela, Paraguay, and Ecuador. Ecuadorean oil reserves presented a good opportunity to guarantee the kind of oil agreement favored by the Geisel administration. Since the early 1970s, Petrobras had bought a portion of the oil surpluses produced by Texaco and Occidental, always around 7.000 bpd. These were small contracts that did not engage the two countries in a full partnership.

CEPE had been trying to engage Brazil in a more comprehensive deal since the early 1970s, but there were two main challenges. Ecuadoreans always charged high prices and demanded too much in return in terms of trade. On top of that, the country was politically very unstable, with repeated coups and military interventions, creating a bad climate for business. During the Geisel administration the same pattern continued and whenever negotiations seemed to be making progress, they simply failed to reach the desired outcome. By 1977 an agreement was almost reached, but faltered over the demands made by the Ecuadorean government of Alfredo Burbano.

CEPE demanded the construction of a US$ 30 million sports complex in the Pichincha province as well as a US$ 250 million steel mill, demands that Itamaraty’s negotiators found to be absurd. But Ecuador continued pursuing the Brazilian government, where some influential people believed that the bad oil deal should go ahead for the sake of trade. By 1978, a memo written by Azeredo da Silveira and the diplomat Rubens Ricupero argued strongly against an oil deal with Ecuador, which they claimed would be harmful to Petrobras’s interests as a company

283 04/04/1975- Reuniao de contacto entre o Itamaraty e a Petrobras.663.63 (B46) P.2
and did not add too much in terms of expanded trade. The Silveira-Ricupero memo ended the discussion for some time, until the Second Oil Shock greatly increased Brazil’s need for suppliers and negotiations resumed.285

The Great Oil Diplomacy of the Geisel years does not lend itself to easy and clear conclusions. It was clearly the result of the principles established by Responsible Pragmatism and an evolution since the beginning of the Itamaraty-Petrobras alliance in 1972. The major difference between Geisel and Medici’s oil policies was the bundle (trade + oil) that Geisel foreign policy tried to implement in every single oil business. Given its ambitious goals and the instability in the oil markets that marked the 1970s, results of the Great Oil Diplomacy are mixed.

In terms of consolidating new relationships and a global profile for Petrobras and Brazil, it was a huge success. Brazil presented its credentials to the world and was able to prove that it had an autonomous and mature oil policy, one that was not subject to the diktat of the United States, but at the same time avoided confrontation with its northern neighbor. In terms of guaranteeing supplies to Brazil, the policy also was successful, since between 1974 and 1979 oil imports increased to 500,000 bpd, an astonishing feat at a time when talk in the oil market was all about a global shortage.

But the trade strategy proved to be a disaster for Petrobras, even though its subsidiary, Interbras benefited greatly. During the Geisel presidency, the government pushed Petrobras into several bad oil deals for the sake of establishing trade relations with certain countries. Brazil seemed genuinely concerned about compensating its surpluses with select African countries through the purchase of oil, repeatedly above OPEC’s fixed price, a trend that would only wors-

285 02/01/1978. Memorandum para o Secretario Geral. Compra de petroleo do Equador. 663.63 (B40) (B46) P.1-3
en under the Figueiredo administration. Meanwhile, Iraqis, Saudis, Americans, Europeans and the Japanese were comfortably living with their large surpluses at Brazil’s expense, not seeing any need to redress the situation. Ultimately, Petrobras would not be judged by its accomplishments abroad or by the excesses of Interbras in that arena. It would be the domestic results and its impact on the economy that would mainly be the judge and jury of Petrobras’ efficiency, and judgment day was coming soon.

2.4 The Cross of Oil - the Economic Dilemma Between Oil and Industrialization

After the First Oil Shock there was a sense of gloom in Brazilian society concerning their economic future. Since 1967, some Brazilians had accessed benefits that a few years ago would have been unthinkable. A new middle class occupying skilled jobs were the main beneficiaries of the Miracle. With this newly found prosperity came cars, houses, consumer goods and even trips to Miami, New York and Paris for those who were most prosperous. Their wages were virtually immune to inflation given the byzantine wage indexation scheme set by the Brazilian government. As the former prime minister of Great Britain, Harold McMillan, once famously said: “you never had it so good.”

The 1973 Shock ended the aura of invincibility that surrounded the Brazilian economy and its junta, therefore the first task of the Geisel administration was to restore a sense of confidence in order to sustain the popular support the regime was enjoying at that time and to quell any abrupt political move by the hardliners in the military. The research conducted by Adelman in “The Economics of Oil Supply” demonstrated the great task that Petrobras had ahead of herself, which was not only to find more oil, but also to make it commercially viable. According to
Adelman, offshore oil has a different price structure, where development costs are higher and more unpredictable. Adelman’s data on costs to oil companies of developing different oil fields showed that between 1974 and 1977 the extraction cost of one barrel in the Campos basin was double that of the North Sea. Given the fact that Brazil was a middle-income country, Petrobras had to make major technological strides in order to cut extraction and production costs.\textsuperscript{286}

One feature of Geisel’s economic strategy, as seen in the previous section, was the Great Oil Diplomacy, aimed at guaranteeing oil supplies for sustained economic expansion and fostering Brazilian exports in the oil supplying nations. As described, the diversification and expansion of oil deals abroad was only part of a larger diplomatic strategy called Responsible Pragmatism, which in the end helped to shape a more mature and complex foreign policy, one that was more in synchrony with the economic ascent of Brazil in the context of Detente.

Domestically, the Geisel administration tried to keep the same pragmatic approach directed toward clear goals. His greatest domestic ambitions were to move political reform agenda forward and to sustain economic expansion so that Brazil could absorb its growing young population into the modern economy through a process of urbanization. Geisel’s hope was that if he succeeded, by the dawn of the 21st century Brazil would finally become a vibrant democracy with a developed capitalist economy.

In order to move his ambitious economic agenda forward, Geisel opted to appoint men similar to Azeredo da Silveira and Shigeaki Ueki. They were no-nonsense, disciplined, patriotic and discreet technocrats. The embodiment of that principle were the two men chosen to run the

economy, Mario Henrique Simonsen and Joao Paulo dos Reis Velloso. Simonsen, the Finance Minister, was a self-taught economist, not uncommon for those who entered the profession in the 1950s in Brazil. The more orthodox Simonsen was in his private life a man that was famous for having four hour lunches, accompanied by several bottles of the best wine. His family had deep roots in the fields of economics and banking. Mario Henrique had learned several of his economic lessons from his uncle Roberto Simonsen, one of the greatest of Brazilian economic minds.

If Simonsen belonged o a more traditional family from Rio de Janeiro, the journey of Joao Paulo Reis Velloso started in the poor state of Para, in the northeast of Brazil. From the little town of Parnaiba, where in his childhood he idolized James Cagney and Charles Chaplin, he later moved to Rio de Janeiro where he embarked upon a successful career as an economist. After his meteoric rise, which included two years of study at Yale University, in 1967 at the age of thirty-seven he became part of the economic team led by Delfim Netto as Brazil’s Planning Minister.\footnote{Velloso, João Paulo dos Reis, Maria Celina Soares d’Araújo, and Celso Castro. 2004. Tempos modernos: João Paulo dos Reis Velloso: memórias do desenvolvimento. Rio de Janeiro: FGV Editora. p.97}

Although Simonsen and Reis Velloso wanted to guarantee to the public that the state of the Brazilian economy was strong, internally they agreed that criticisms made by IMF analysts in the early 1970s were actually correct. They understood that the Miracle was unsustainable in the long run and that some of its problems were quite evident and had to be dealt with immediately.

One of the main problems was the fact that both the Kubischeck (1955-1960) and Medici industrial drives had been oriented towards consumer goods and did not develop a sizable capital
goods industry, which would have been the basis for a developed and autonomous industrial economy. In public, Simonsen tried to dismiss this diagnosis by arguing that only communist economies developed capital goods first, and Brazil was following a different model, and that there had been a lack of investment in agriculture during the Medici period, typically a mainstay of Brazilian exports.\(^\text{288}\)

The Geisel administration wanted to empower Embrapa, a government agricultural research institute, so that Brazil could develop new types of crops and create better prevention systems against drought and frost, two of the main problems affecting Brazilian farming. Another important objective was to tackle the series of indexations and subsidies that were in place, especially those affecting oil and wheat imports, which were extremely costly to the public purse. Finally, they needed to maintain their supply of foreign credit while keeping inflation low, a daunting task given Brazil’s exposure to unstable oil markets. In the best technocratic form, they sought to address these challenges through II PND (National Development Plan). This comprehensively outlined how the government would proceed during the following five years in every key policy area, from energy to income distribution. Everything was included and all would be well, the report assured, just like in Chaplin’s movies.

In the energy sector, the government opted for a controversial strategy that would lead to a disastrous outcome. It pursued grand projects relating to all conceivable energy sources available at that time. It seems that Geisel may have forgotten the advice given to him and Ueki a few years previously by oil guru Paul Frankel at the dawn of the oil crisis. In 1973 Frankel warned

\(^{288}\) Veja, “Com as provas da confiança”. February 16th, 1977. Veja is used here to demonstrate how it sided with more free market economic policies than those spoused by the Geisel administration.
both Geisel and Ueki that the Oil shock would bankrupt nations that entered into a costly race for alternative fuels instead of temporarily adopting a more modest oil policy.

Modesty was not a feature of the Geisel’s administration though. In the same way that Geisel pursued Great Oil Diplomacy, his administration looked for comprehensive energy deals abroad, such as the Nuclear Accord with West Germany in 1977 which came at a cost of US$ 8 billion for the control of the full nuclear cycle, an old dream of the Brazilian military. The vital Itaipu-Corpus deal with Argentina and Paraguay would later be concluded during the Figueiredo administration.289 When ready, Itaipu would be the largest hydropower plant in the world and a remarkable feat of engineering. Brazil was also pushing forward with sugar cane ethanol development, through the Proalcool program.

In this program private sugar cane cooperatives cooperated with the government and the auto industry in order to diminish gasoline consumption in Brazil. It was one of the greatest energy hopes for the country, together with the nuclear project. Brazil had enough land to plant sugar cane and enough uranium mines to serve as a reliable source of energy. But, the the expense of Proalcool would be very steep, US$ 5 billion in subsidies from 1975 until 1981, most going towards sugar cane crops and the car production. Brazil also found ways of developing its generous oil shale reserves in the state of Parana, alleged by Petrobras geologists to be one of the

largest shale areas in the world. Petrobras even had its own shale transformation process, known as Petrosix, and technicians and engineers were excited by the prospect of extracting shale oil in that area. Petrobras then started the construction of the Sao Matheus shale extraction plant at a cost of nearly US$ 1 billion, an initiative probably thirty years ahead of its time.

Simonsen and Reis Velloso also had to deal with another problem, which was the effect of frequent oil price increases in the Brazilian domestic market. By 1974, Brazil’s oil production was a mere 173,000 bpd and falling, despite all the efforts made by Petrobras to increase output in Bahia state oil fields. As seen in chapter one, by 1974 exploration in the Campos basin, close to the Rio de Janeiro coast, was already Brazil’s best hope. However, given the fact that some of the most profitable basins were far from the coast and even technology for drilling to this kind of depth had only recently been used in the North Sea put Petrobras in a difficult spot. Although, general expectations were that production would start immediately, it would take until 1980s for the Campos to reach its full capacity, at which point it could alleviate Brazil’s foreign oil bill.

Since the government expected economic growth to continue, models that predicted oil consumption by the early 1980s were cause for great concern, with imports standing well over 1,000,000 bpd. Simonsen, as the good orthodox economist he was, favored a slowdown of the economy and a comprehensive oil-rationing program. Geisel and Reis Velloso, on the other hand, saw this approach as political dynamite and believed they had to push the economy in an-

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290 Oil shale is shale which produces a oil-like substance when processed. While, shale oil is oil trapped in a shale formation - also known as tight oil.
other direction. They felt they had a solution that could avoid a sharp turn and at the same time avoid hard decisions. Therefore, with rationing out of the question, the National Oil Council (CNP) opted for several gas price increases after November 1973, until Brazilian consumers were priced out of the market. Gas stations were also closed during weekends and other tougher measures were considered to be “under consideration” by the government, although they lacked the political will to displease their most important constituency, the middle class.

If rationing would have decreased the dictatorship’s support among the population, steep price increases were extremely problematic too. Brazil was facing its most chronic inflation problem since the early-1950s, when its industrial development had started to strengthen. The country’s spendthrift habits, the lack of a skilled labor force or adequate infrastructure, its dependency on foreign oil, and cumbersome rules and indexations pushed production costs higher, generating inflation. Given the scope of the inflationary pressures that built up during the Medici years, by 1974 Geisel allowed Simonsen some room to slow down the economy.

The year of 1974 also registered the first decrease in oil imports since the early 1960s, due to the price increase that followed the Oil Shock. Imports fell by a mere 10.000 bpd (680,000 bpd) and a balance of payments that faced a deficit of US$ 2 billion in 1973 grew to US$ 6 bil-

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293 Idem.

lion in 1974. Simonsen and Velloso were in agreement that oil subsidies and the indexed system of wages had to be eliminated, but this remained politically unfeasible. Even in a mild recession and with a more gentle form of fuel rationing, the backlash from the business community, the press and the general population would considerable against the government.

One of the oddities of the Brazilian political system under the dictatorship was that certain local and even “controlled” congressional elections were allowed. That said, the government could change the rules if it felt it would lose the elections. The military liked to maintain an appearance of openness and did not like to be equated to the Central American caudillos, whom they despised. Given that elections were underway in 1976 (municipal) and 1978 (congressional), the government decided to alter its strategy. They wanted to bring about a replenished optimism, uplifting the national morale that had been hurt by the 1973 oil shock. In order to create a positive agenda, Velloso and Simonsen would focus on two important problems that affected the Brazilian economy: the lack of capital goods and the condition of the railways. The goal was to put Brazil on another stage of development and use its export drive to pay for the extra oil and foreign credit that were required. Problems like indexation, inflation and income distribution were secondary in their importance.

By early 1975 the Geisel administration’s positive agenda was moving full speed ahead, in spite of all the problems previously mentioned. For Petrobras, this meant considerable responsibility. With the assistance of Itamaraty, Petrobras was tasked with guaranteeing a reliable oil supply for Geisel’s industrial push. At the same time it needed to improve its domestic infrastructure and increase domestic oil output, so that Brazil could achieve the holy grail of oil self-sufficiency. During the Geisel years, Petrobras had more support and resources than probably at any time during its history. Because Geisel was the former president of Petrobras and Ueki had been his right hand man, the company had all the means necessary to pursue the same kind of ambitious domestic expansion that it conducted abroad.

In 1975 the Geisel administration also decided to follow an unexpected course, one that had serious repercussions at the time, although they have since been forgotten. Under the influence of Ueki and Simonsen, the patriotic Geisel was persuaded to open some of the Brazilian offshore basins to risk contracts with the oil majors. From the moment it was announced until the time they were implemented, the risk contracts provoked the most ebullient debate about oil policy since the O petroleo e nosso (the oil is ours) campaign during the early 1950s. This new policy failed to achieve a consensus within the Geisel cabinet or within society as a whole.

For the defenders of the free market in Brazil, such as Eugenio Gudin and Roberto Campos, the risk contracts were a blessing. For them, Brazil had finally conceded that Petrobras was a huge costly failure. As Eugenio Gudin liked to say: “Petrobras is a great company, but only above the ground.” Campos and Fausto Cupertino loved to mock Petrobras by saying she had the
“monopoly of empty holes” or the “monopoly of the vacuum”. For most military officers, such as Generals Oziel de Almeida (CNP) and Araken de Oliveira (Petrobras), the risk contracts were tantamount to treason as they spelled the end of the Petrobras supremacy by granting an unforgivable concession to foreign capital. Brazilian historians and oil experts such as Jose Mattos Dias, Ana Quaglino and Jaime Rothstein still hold a more negative view on the risk contracts, based on patriotic grounds. Yet given Brazil’s necessities, the risk contracts promised to move a lot faster than the opposition could mobilize.

In the end, it was Geisel and Ueki’s duty to keep the cabinet together and move ahead with their bold agenda. Some more balanced views from that time, such as that of Getulio Carvalho who wrote a book on the risk contracts, claimed that while the results were uncertain, Brazil’s growing energy needs made Geisel’s policy necessary. Moreover, oil prices remained high, which led the oil majors to look for riskier deals in unlikely places, just as they would in the early 21st century when oil prices were above $100 a barrel.

Right from the beginning, several foreign companies were interested. In order to obtain contracts companies would have to participate in an auction for different areas that had been selected by Petrobras. In order to quell nationalist critiques, Petrobras made sure that no area in

the promising Campos basin would be auctioned to the foreign companies. 301 Fifteen areas around the country, from Pelotas in the South to Acre in the northwest were chosen for auction. These were areas where Petrobras had already conducted geological surveys and engaged in some drilling.

These were areas that they considered to be very promising, such as the mouth of the Amazon River, the Santos Basin and the Northeast coast (Ceara, Sergipe and Rio Grande do Norte). But, in essence, they were not the guarantee of a certain profit such as Campos, hence they were called risk contracts. 302 The legal framework was simple, little different from what Braspetro did Iraq or Algeria. Petrobras gave the companies the right to explore and exploit an area for two years, with a possible extension to more 3 years in the case of any substantial findings. Companies had to invest a minimum value in each of these blocks and they were obliged to sell all their oil to Petrobras. Most analysts at that time said the contracts offered by Brazil were following market’s standards, or even slightly more demanding. Fifty-two foreign companies presented themselves for the first round, an impressive number given Petrobras’ expectations. 303

Between February and May 1976 the fifty-two companies that bought the geological surveys offered by Petrobras at $ 400.000 each were reduced to nine: Exxon, Atlantic Richfield, Gulf Oil, Texaco, Agip-ELF, Chevron, Occidental Oil, Royal Dutch Shell and British

301 Veja, “Edital a vista” January 21st, 1976. Veja was used here in order demonstrate the perception of those who sided for the risk contracts in Brazil.
Petroleum. Two months after, there were five winners of the risk contracts for oil joint-ventures with Petrobras. In the end, BP, Shell, Exxon, Texaco, and Agip-ELF were those chosen to focus on the areas offered by Petrobras. Several other areas were not picked for the its low potential output.

It soon became clear that BP and Shell were the winners in the bids for the best areas. BP obtained access to the coveted Santos Basin, not far from Campos and considered one of the most promising exploration areas in Brazil. Shell won the contract to explore the mouth of the Amazon River. By October 1976, BP had signed the first contract and started drilling under the curious eyes of Brazilians. Shell followed, then Texaco, Exxon, Agip-ELF and Hispanaoil in one of the areas that was rejected by the other companies.

Most of the exploration concentrated at the mouth of the Amazon River, but it was the BP well, known as the 1-SPS-9 and drilled by the platform SEDCO 701, that would draw the nation’s attention. James Simpson and David Llewellyn, two veterans of offshore oil exploration in the North Sea, conducted the exploratory operation. Rumors quickly spread that a giant oil reserve had been found by SEDCO 701 amounting to somewhere around 80,000 bpd. Petrobras and BP conducted a joint press conference denying the suggestion, but nobody was satisfied with their denial.

304 Idem.
305 Veja, “O primeiro contrato”. October 6th, 1976. Veja was used here in order demonstrate the perception of those who sided for the risk contracts in Brazil. And also to understand how the debate on the contracts evolved in the Brazilian press.
306 Veja, “Etapa vencida”. April 20th, 1977. Veja, “O fim de uma serie”. May 4th, 1977. Veja was used here in order demonstrate the perception of those who sided for the risk contracts in Brazil. And also to understand how the debate on the contracts evolved in the Brazilian press.
A journalist from the *Journal do Brasil* daily, Antonio Silva, decided to book a room in the very same hotel where the BP team was located. Under the false name of Sergio Almeida, he claimed to be a young geologist who was persecuted by a rich and crazy uncle who despised his choice of career. After several nights drinking *cachaca* and playing cards with the British, Silva (Almeida) found out that some interesting oil findings had actually been made, but BP workers said that David Llewellyn was the one who knew everything. Llewellyn was a very discreet British engineer who did not concede information easily, but he seemed to have a weakness for Brazilian women. Antonio Silva called his wife, Marta, who was also a journalist and asked her to come to Santos and seduce Llewellyn. After a night of drinks in an American bar, Llewellyn, eager to impress his date, said that considerable amounts of oil would flow soon from the well and their success would be guaranteed after this vital finding.\(^{307}\)

Silva’s wife recorded the whole conversation and it soon went to press and became one of the hottest topics in Brazil in 1978. BP and Petrobras had to respond to the public once again, but this time they admitted that the well was indeed promising. Following the fiasco, BP fired all of the platform’s crew, except for Llewellyn. After all the drama and bureaucratic encroachment surrounding the well, BP passed it on to Petrobras after the first two years. Santos Basin became one of the most prosperous in Brazil over the next decade of exploration, and David Llewellyn’s observations were ultimately proven to have been correct.\(^{308}\)

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\(^{308}\) Idem.
Another two rounds of auctions followed with virtually no success. The costs were considered to be too high, the bureaucracy too cumbersome and above all, the areas that were being offered were seen as unprofitable. Without any meaningful findings, the foreign companies abandoned their areas upon the expiration of their contracts. The risk contracts, as well as the shale exploration in Parana, were running ahead of schedule. This episode confirmed the Geisel administration’s penchant for pragmatism above ideology in oil policy, although, had the foreign companies suddenly started to strike oil, the government would have faced a significant political problem in the form of a public outcry for Petrobras to seize the wells. The Brazilian company would also have a lot to explain to the Brazilian people, especially concerning its investment and exploration policies. The risk contracts were a laudable initiative, despite their failure, in that they provided valuable experience for when Brazil would reopen its oil markets for foreign exploration in the 1990s.

As we have seen, during the Geisel administration Petrobras advanced its areas of interest abroad and at home, in the process becoming a more diverse company. After the consolidation of its retail arm known as BR Distribuidora during the early 1970s, Petrobras followed a clear strategy in the domestic market. First, it increased BR Distribuidora’s domination over its main rivals, Exxon and Shell. Second, Petrobras kept its focus upon achieving self-sufficiency in the refining and production of oil derivatives. Finally, the goal was to use the profits achieved in these two areas in order to financially leverage the Campos Basin exploration and future exploitation. Frequent gas price increases and the liquidity of the Eurodollar bank market allowed Petrobras to vastly improve its investment ability and perform a sustained expansion during the late 1970s. But, its expansion was met with contempt by the Brazilian public, who viewed the
company as incompetent, and felt threatened by constant warnings of rationing and the advance of the ethanol program.\textsuperscript{309}

BR Distribuidora continued to grow at the same impressive speed seen during the Medici administration. Their strategy followed the same core ideas that marked the company’s approach during the early 1970s, which centered on comfort, modernity and patriotism. With a little help from its political contacts and some back room deals their market share increased from 15 to 40 percent between 1969 and 1977.\textsuperscript{310} By late 1978, BR once again demonstrated its innovation by being the first gas retailer to offer ethanol in its stations.

This was a timely development, since by 1979 ethanol-powered cars were becoming popular in Brazil, a trend that accelerated in 1980 when the effects of the Second Oil Shock fully hit the Brazilian market.\textsuperscript{311} BR was able to cope well with the losses that were generated by the feeble attempts of the Brazilian government to contain oil demand. At the beginning of the First Oil Shock in 1973, gas stations were ordered to close at the weekends, a policy that was still being applied by the Geisel administration.\textsuperscript{312} The government was completely against any sort of rationing, since it would have deeply affected the nation’s morale. The only member of the cabinet defending a serious rationing program was Mario Simonsen, who saw the balance of payments deficit sliding at an unsustainable rate.

After an important cabinet meeting in January 1977, Simonsen, Reis Velloso and Ueki appeared on television explaining a new set of measures designed to contain the country’s gaso-

\textsuperscript{310} Idem.
\textsuperscript{311} Veja, “Agora Vai”, May 2nd, 1979. Tightrope to democracy.
line consumption. The main instrument to be used by the government was a weekly coupon of Cr$ 200 that would be issued to everyone that soon came to be referred to as a, “Simoneta”, after Simonsen.\(^{313}\) On top of that, it was established that from that moment forth the maximum speed on all Brazilians roads would be limited to 80km/h (50 mph).

Upon this announcement at TV Globo by the three ministers the Brazilian public was enraged. Taxi drivers complained that the Simonetas would destroy his business, making it impossible for cab drivers to sustain the cash flow necessary to keep their vehicles running.\(^{314}\) Car drivers in Sao Paulo, mainly middle class professionals, were furious that they would have to use the filthy, crowded and unreliable public buses to go to work.\(^{315}\) In addition gas price increases from anywhere between 10% to 30% would be used by the government as a way to curb Brazilians’ addiction to gasoline.

Having already had to endure high inflation and even higher gas prices, the Prussian-Blue Simoneta coupon was seen by the Brazilian people as the ultimate outrage and a fierce popular backlash followed. In fact, it was so fierce that Geisel quietly decided to put the Simonetas down, claiming that he had revised the oil numbers himself and that, “things were getting better.” The Simonetas were soon dead and the Geisel administration kept its economic record of delaying tough economic measures for the sake of pleasing its main constituency, the Brazilian elites and the middle class. Decades later, Geisel acknowledged a full rationing program was politically impossible at that time, and that he had justifiably feared the growth of a huge black market,

\(^{313}\) Veja, Simoneta nao entra em campo”. March 16th, 1977. Veja here was used to demonstrated the arguments of those who sided against any dramatic fuel rationing in Brazil.

\(^{314}\) Veja, “No ar, o programa de racionalizacao.” January 19th, 1977. Veja here was used to demonstrated the arguments of those who sided against any dramatic fuel rationing in Brazil.

\(^{315}\) Idem.
which would have disrupted the economy even more.\footnote{316}{Castro, Celso, Maria Celina Soares d’ Araújo, and Alzira Alves de Abreu. 2002. Dossiê Geisel. Rio de Janeiro, Brasil: FGV Editora. p.227.} After the Simoneta fiasco, the National Oil Council (CNP) opted for the creation of a rationalization commission, in accordance with an old Peronist motto: if you want to see something not get done, set up a commission.

Meanwhile, Petroquisa, Petrobras’ refining subsidiary, continued expanding its business. After the inauguration of the vital refinery of Paulinia in the industrial heart of the nation in 1972, their goal was to advance refining activities to the other parts of the country. The refineries of Cubatao (Sao Paulo) and Duque de Caxias (Rio de Janeiro) were expanded too. But even more important was the construction of the petrochemical pole of Triunfo, in the state of Rio Grande do Sul. It was the most important initiative of its kind in the southern region, complemented by the new sea terminal of Tramandai, also in Rio Grande do Sul. In doing so, Petrobras expected to improve the supply of oil derivatives to one of the most industrialized and prosperous areas of the country. The Triunfo Pole was the perfect representation of the Triple Alliance since it counted on the participation of both Brazilian and foreign companies as partners to Petrobras.\footnote{317}{Veja, “O cavalo encalhado” May 12th, 1976. Veja here was used in order to demonstrate how the expansion of the oil industry in Brazil was affecting other regions beyond the wealthier southeast.}

Another major initiative completed by the Geisel administration was the Camacari petrochemical pole, which was a longtime Petrobras project, since Bahia had been the largest oil producer in Brazil for more than thirty years. The Camacari pole was completed in 1978, becoming
one of the largest in Latin America and helping to expand industrialization in that part of the country, which was still lagging behind the more prosperous South and Southeast.\textsuperscript{318}

The refining sector was one of the greatest success stories for Petrobras in the 1970s, since the growth in its domestic refining capabilities allowed Brazil to save around US$ 9 billion over the course of a decade. By 1979, Brazil’s refining capability stood at 1.1 million bpd of crude which not only guaranteed self-sufficiency, but also allowed exports of oil derivatives to Latin America (Uruguay and Paraguay) and Africa (Nigeria), bringing vital foreign reserves into the Brazilian economy.\textsuperscript{319}. The success in the refining strategy was Petrobras at its best, a clear mission with appropriate goals and a well-designed budget. Under these circumstances, the company was productive and thrived.

On the technical side, Petrobras was still benefitting from the major improvements made between 1967 and 1974. As seen in the previous chapter, Petrobras engaged in a huge expansion plan which greatly improved the company’s research and development capabilities, making it one of the world leaders in offshore exploration. The technical reports from Petrobras during 1974 and 1980 may provide us with an interesting insight into how the company’s research evolved during the Geisel administration. Ernesto Geisel maintained all the policies implemented by his predecessor regarding offshore oil exploration. That meant the continuity of the expansion of Petrobras’ infrastructure in partnership with foreign suppliers.

The exploration department (DEXPRO) and the research center (CENPES) were endowed with vast resources by the Geisel administration. With that, the construction of new off-

\begin{flushright}
\textsuperscript{318} \url{http://www.coficpolo.com.br}. Accessed on September 29th, 2015 web.
\end{flushright}
shore platforms and the expansion of the seismic analysis of the Brazilian continental shelf were pivotal to the expansion of exploration activities in the Campos basin. Petrobras was still improving its Early Production System in partnership with the Hamilton Brothers Company (USA), which allowed the Brazilian company to have commercially viable wells earlier.

By 1974 Petrobras had improved its ability to process vital information with the purchase of the new IBM 360/65, which replaced the IBM 360/44. The new computers were an important piece in developing what was called Analysis and Information Service (SINAL), which allowed the Geology Development Sector (SESUB) to make great strides in mapping the Campos Basin’s most promising areas.  

The CENPES lab made further progress during the period as it discovered different areas of oil exploration. CENPES was conducting 600 analyses of organic geochemistry every month, looking for evidence of hydrocarbons in samples from different areas of the Campos Basin. Another area in which Petrobras advanced during the Geisel presidency concerned the maintenance of its infrastructure. CENPES developed a technique where epoxy and fiberglass were used to repair oil storage tanks, emulating a similar technique used in the United States at the same time.

The engineer Ary Pianta Veiga brought up another important issue, arguing for an expansion of preventive maintenance of pipelines and platforms. Ary Veiga also argued for more intensive use of video cameras for inspections on the offshore platforms, as an alternative to the

dangerous work carried out by Petrobras divers. The maintenance of the pipelines was also considered to be important, especially against the corrosion that tended to accumulate over the 40 year lifespan of a pipeline. In order to solve that issue, Ary Veiga recommended constant maintenance either by randomly sampling a sector of the pipeline, using ultrasound or by placing micro cameras inside the pipelines attached to a central television circuit.\(^{322}\)

Sinval Araujo, another Petrobras engineer, warned in 1979 that the company should immediately step up its maintenance efforts for its pipelines in the state of Sao Paulo. The engineer warned in his report that several leaks were found in gas pipelines that were dangerously close to favelas, and children were even found to be playing close to the pipelines. Unfortunately, sometimes the lag between research and reality takes longer than necessary. Petrobras invested heavily in substituting its divers with ROVs in the 1980s, given the increasing depths of its offshore platforms. However, the company kept a policy of neglecting its maintenance, with tragic consequences for several poor communities in the 1980s.\(^{323}\)

The Exploration Department (Dexpro) and the Commercial Department (Decom) also made important technical progress during that period. Due to its enhanced responsibilities in exploring the offshore oil in the Campos Basin and in the Brazilian northeast, Dexpro became more diligent in expanding its acquisitions of probes, pipelines and drills. Dexpro also acquired the Inces-Strudl II program, which gave Petrobras enhanced soil analysis capabilities.\(^{324}\)

Furthermore the department acquired computer programs that allowed the company to

\(^{322}\) Idem.


make structural calculations for its offshore platforms. In 1974 the Decom adopted the SP mathematical model, which allowed Petrobras to make FOB purchases instead of CIF for its imported oil. The SP model was able to produce reports that allowed Decom to find the optimum value for oil purchases, locate profitable tanker routes, and determine which type of oil best suited the company’s needs at a certain time. The new refineries built by Petroquisa, Petrobras’ subsidiary in the refining sector, further aided the more efficient purchasing patterns implemented by Petrobras.325

The new refineries built between 1970 and 1978 were made to be flexible and capable of refining different types of crude. By the late 1970s, the Brazilian refineries were also able to adapt to the challenge of refining the heavy crude that came from the Campos Basin, which was a statement to how well Petrobras downstream sector was well developed by the late 1970s.326

Shigeaki Ueki repeatedly postponed the production start date and the estimated output of the reserve. At first, optimistic projections suggested an output of 500,000 bpd in 1977, which later downgraded to the more realistic volume of 250,000 by 1980.327 The situation was desperate indeed. By 1978, the final year of the Geisel administration, Brazil domestic oil output stood at 160,697 bpd, the same as output in 1970.328 By 1978 Brazil was importing 902,835 bpd, 250,000 more barrels per day than in 1974, when Geisel took office.329

326 Idem.
327 Veja, “As promessas de Campos”. June 30th, 1976. Veja here has been used to demonstrate is criticism of Petrobras, which represented the view of free marketers in Brazil. Given its political beliefs, its coverage of Petrobras’ shortcomings was always extensive.
329 Idem.
2.5 The Results of Geisel’s Policies

The story of how oil price increases affected the Brazilian economy between 1974 and 1979 presents an interesting paradox, which has not been properly explored by historians or economists. By combining data from the National Energy Bulletin (BEN), the IPEADATA database and the BP statistical review on oil prices presents a break in regular patterns of supply and demand in Brazilian oil consumption. According to BP statistical review, the crude barrel price increased from US$ 12.00 to US$ 30.00 (1970s value) during Ernesto Geisel’s time in office. The government expected that market laws would price out consumers and oil consumption would eventually fall. Interestingly, that is not what happened. While crude prices more than doubled between 1974 and 1979, Brazil’s oil consumption rose about 40% from the pre Shock level.330

Those numbers reveal an interesting scenario where higher oil prices did not lead to a drop in demand, as would have been expected. When those numbers are analyzed in depth, it is possible to see a clear trend where the core of oil derivatives consumption migrated from gasoline to diesel/fuel oil. This can be explained by the fact that while higher prices managed to stabilize gasoline consumption for regular drivers, trucks turned to diesel instead. Moreover, according to BEN the fuel oil consumption by the industry grew by 30% during Geisel’s tenure in office. Given the fact that a huge part of the industrial push during the mid 1970s was made by state companies, that leads to the conclusion that the Geisel administration was actually pursuing

contradictory policies, with savings much more a matter of discourse than policy. It is also interesting to think about broader trends regarding the profile of consumption in Brazil. Both consumer habits and government policies fed one another, leading Brazil to increase its imports at a time when economic incentives to do so were very low.

Geisel’s export push was causing huge balance of payments deficits of close to US$ 2 billion during his tenure, which needed to be serviced by equally sizable foreign loans from international banks.331 In this process, Petrobras was an answer as well as a problem. Since Geisel was determined to keep the export drive alive at all costs, there was a crucial need for oil. The global oil market situation did not help either, since during his time in office OPEC’s prices increased at least 10% every year332 Therefore, Petrobras needed considerable resources in order to guarantee foreign oil supplies and develop domestic oil reserves.

The financial leverage to conduct such a complex operation came in great part through credits from the same Eurodollar markets from which the Brazilian government was borrowing, increasing the overall Brazilian foreign debt in the process. At that time, the consequences of such heavy borrowing by the state companies was not clear yet to the government, which allowed Petrobras free rein to obtain limitless foreign credit. Bankers were happy to continue extending credit. The immediate result was that Petrobras had the necessary liquidity to develop the Campos basin.333

By the end of the Geisel administration in March 1979, Petrobras had invested

US$ 2.072 billion in research and exploration, the fifth largest in the world by an oil company. Only Exxon (US$5.3 billion), Shell (US$4.8 billion), Gulf (US$3.4 billion) and British Petroleum (US$2.7 billion) were ahead of them. Reports from Pricewaterhouse, who were responsible for auditing Petrobras, showed that by 1975 the company had short term debts with the Eurodollar markets of Cr$ 19 billion (convert dollars) with floating interest rates between 3 and 11%, debts to which the Brazilian government was ultimately the sole guarantor.334

With this amount of leverage, Petrobras was able to make huge investments in exploration in the Campos field. By 1978, Petrobras had invested a staggering US$ 1.4 billion in the five main exploration sites in Campos (Garoupa, Namorado, Pampo, Badejo and Cherme), an average of US$ 242 million per field.335 Those numbers demonstrate the level of maturity that Petrobras had achieved at that time and how far the company had come since 1953, when it was smaller than the National Oil Council. However it also demonstrates the needs of a capital intensive industry such as oil, and the effects it had on countries that struggled to save enough for their own investments and had to capture dollars in foreign markets.

Given the scale of investment, the need for oil, and the lack of initial results, the desperation of the Brazilian government could be understood. Certainly extracting oil from Campos was not an easy task, since Petrobras was working at depths of between 160 and 400 meters, which were extremely challenging for the technology that existed at that time. Yet other factors such as corruption and waste must be considered as factors as well, though they are harder to prove given the lack of documentation still available.

Right in the midst of the backlash against the Simonetas in 1977 the first major Petrobras corruption scandal was unveiled. It all started when at a federal court in Chicago Frederick Ingram, president of the Ingram Corporation, an oil services company with an international profile, was being sued for receiving kickbacks given to Illinois state authorities. During the trial, Mr. Ingram admitted that kickbacks were a huge part of his business and mentioned Petrobras as the main example of that policy abroad. Ingram claimed that he had given Laurindo Carneiro, one of the main executives at DEXPRO, a sum of US$ 170,000 to guarantee that Ingram would win Petrobras’ platform contracts.³³⁶

Laurindo Carneiro was very close to DEXPRO director Haroldo Ramos. A few weeks before, Petrobras had removed all DEXPRO directors, including Haroldo Ramos, without any explanation.³³⁷ Laurindo Carneiro had died a few months before the scandal broke out, but his wife contested the allegations and vowed to defend his honor. Later on, a controversial secret report from Petrobras was leaked to the press. The report affirmed that Haroldo Ramos and his cadre were known within Petrobras as “The Mandarins,” acting on a free budget and without any accountability.³³⁸

According to that same report, Petrobras had suspected for some time that the oil platforms rented by the company were well above the market price. Ingram’s account seemed to

³³⁶ Veja, “Suborno exumado”. November 30th, 1977. Veja here has been used to demonstrate is criticism of Petrobras, which represented the view of free marketers in Brazil. Given its political beliefs, its coverage of Petrobras shortcomings was always extensive.
³³⁷ Veja, “Duplo Escandalo”. December 7th, 1977. Veja here has been used to demonstrate is criticism of Petrobras, which represented the view of free marketers in Brazil. Given its political beliefs, its coverage of Petrobras shortcomings was always extensive.
³³⁸ Idem.
confirm these suspicions.\textsuperscript{339} Despite all of the stories, it is important to emphasize this was still a dictatorship that had only recently started experimenting with a mild relaxation of censorship. Talking about accountability in a government where people were still being tortured and killed in several police dungeons spread across the country is not proper. Therefore, the report had no serious legal repercussions and nobody was either investigated or put on trial.

Laurindo was dead, and Haroldo Ramos was protected by Geonisio Barroso, another powerful Petrobras executive and powerbroker. Ramos was transferred to a top job at Interbras as a “reward” for several years of “good services” in the name of Petrobras, and later on he served as an advisor to Petrobras on foreign oil purchases.\textsuperscript{340} Coincidentally or not, only a little more than a year after Ramos and his team were gone, oil finally started to flow from the Campos basin at the rate of 182,406 bpd.\textsuperscript{341} As Albert Einstein once said: coincidence is God’s way of remaining anonymous.

Having dodged several political bullets in his life, it could be said in March 1979 that Ernesto Geisel was above all a survivor. He was able to avoid a recession, the challenge from the hardliners, and the constant instability that marked the oil market during his tenure. Working closely with his supremely talented cabinet of Mario Henrique Simonsen, Azeredo da Silveira, João Paulo dos Reis Velloso, and Shigeaki Ueki they expanded the remit of Petrobras to a variety of new industries and consolidated some of the best initiatives of the Medici period, such as Braspetro and the downstream area expansion. His administration also consolidated the exploration of the Campos basin and expanded the national tanker fleet (FRONAPE) to 1.5 million tons.

\textsuperscript{339} Idem.
By March 1979, Petrobras was an oil giant in the global business, despite the fact that Brazil had very little oil. This paradox was to be achieved through the efforts of Geisel and his team, first as Petrobras president (1969-1973) and later as president of the nation. Together with these impressive accomplishments in the oil field, Geisel managed to give Brazil’s foreign policy a more mature approach and global profile and lead Brazil a step closer to the Abertura.

All of these impressive accomplishments, added to the fact that key members of Geisel’s administration have been more than willing to pass on their impressions to historians, transformed the narrative of his period into a largely positive one. It is not the goal of this work to debate Abertura or other humanitarian or political aspects of his tenure, which several other historians have already done with great talent, such as Carlos Fico and Daniel Aarao. But, it is time to set his economic record straight, especially regarding the role of oil in his economic planning.

First, Geisel inherited a flawed model from his predecessor, Medici. The so-called Miracle was indeed impressive at its time (1967-1973) but it was not a sustainable development model. It relied on perfect conditions on two unstable fronts, energy and capital. Being so dependent on foreign investment and oil would eventually bring trouble in 1973 when crude prices increased four-fold. The Miracle was also only made possible by the extensive use of indexations and subsidies, which created all sorts of macroeconomic distortions.342

342 The Wage Law introduced during the times of Roberto Campos and Octavio Bulhoes time in the helm of the Brazilian economy (1964-1967) predicted that different wage brackets were entitled to different yearly wage corrections. The lower brackets were punished with lower returns, while higher brackets were completely isolated from inflation. During the 1970s, that helped to foster huge income gaps within the Brazilian population, fostering the pyramid society of the 1980s.
Finally, the entire transportation system was oil intensive and inadequately prepared for heavy industrialization, which relies more on railroads and waterways for freight, as opposed to trucks and highways. Presented with this scenario, Geisel avoided facing the main problems left by the Medici’s Miracle, although his economic team clearly understood those problems. In contrast to the assertions made by historians of Brazil for the past twenty year, the First Oil Shock did not kill the Miracle but rather exposed its inherent flaws, as already noted in chapter one. When Simonsen induced a brief recession in 1974 before being told to change the course, Brazil proved that it was possible to live with the new prices and keep the country moving, albeit more slowly. By 1974, Brazil was importing 10,000 bpd less than in 1973 because of a slower growth rate and had avoided the path of some other countries by failing to implement a serious rationing program.

Consequently it was possible to keep a slower rate of oil consumption without causing an economic meltdown, but the military leaders liked impressive GDP growth figures, believing that they helped to secure their power base. It was not the Oil Shock of 1973 that led to further debt growth and the debt crisis of the 1980s, as has been commonly said in the historiography. It was the Geisel administration’s choice to implement an even more intense push towards industrialization with its emphasis on capital goods and misguided energy policy that led to the debt crisis of the 1980s as the following data shows. When Medici left office in 1974, Brazil was importing 689,000 bpd and by 1979 the imports stood at 1,000,000 bpd. The foreign debt of US$ 16 billion in 1973 was close to US$ 50 billion by 1979. In order to push for growth in unfavorable circumstances, Brazil sunk itself into expensive oil purchased with the “savings of others”, as Delfim Netto liked to say.
The aim to become a mature industrialized export economy is clearly revealed in the energy statistics of the 1970s. While diesel and gasoline consumption rose by only 65,000 bpd in Geisel’s time (1974-1979), fuel oil consumption, mainly used in heavy industries, grew 100,000 bpd over that same period or 210,000 bpd since 1970. 567,575,000 extra barrels of oil were imported by the Geisel administration to satisfy its export push as part of an erratic energy policy, but it was the continuity of the domestic economic distortions (inflation, indexation) that were the real culprits for the economic disaster of the 1980s. These economic policies hindered efficiency gains, increased income inequality and over time were unable to create a healthy macroeconomic environment.

It was a crisis mainly engineered at home, not in the sands of the Middle East. In trying to turn from import substitution to export substitution in such an abrupt manner, Geisel left no option for the government, except to print money (M1) and borrow from abroad. Although the government claimed that their goal had always been a more balanced GDP growth (5% average from 1974-1979), the impressive amount of energy and capital used points toward a different conclusion. Geisel’s administration was pursuing Medici-like GDP growth rates, and in following that goal they lead the Brazilian economy towards an almost complete economic meltdown after 1979.

It must be recognized that if Geisel had opted for recession and budgetary constraint, it was very likely that he would have had to resort to the use of force, because the pressure from his

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power base and the hardliners would have been intense, as it was in 1974. The maintenance of modest growth supported by large oil purchases helped the Geisel administration to keep a simulacrum of economic stability, and with that Abertura became a feasible prospect, as president Geisel desired.

From a position of strength, Geisel was able to select General Joao Figueiredo as his successor, the head of the National Security Information (SNI). Figueiredo was widely respected by Geisel for being a man of intelligence and composure, and also because he had been the best student in the military academy, something of huge importance within military hierarchy. Yet despite being at the center of intelligence and being a bright military mind, it is unlikely that Figueiredo truly understood the poisoned chalice that was being served to him by Geisel and his economic team.

Geisel had the option to drink from the half full poisoned chalice that Medici gave to him. But Figueiredo did not have that option; he would have to drink it all from the cursed grail. There was no way that the storm set by Geisel’s economic policies could be avoided, it was only a matter of time. Fortuna was gracious with Geisel, allowing him to leave office a few months before the storm started, and that allowed him to enjoy a comfortable retirement, away from the public eye in a small and quiet town on the mountains of the Rio de Janeiro state. In order to face a crisis of such scale, Brazil needed more than a security expert; it needed a leader of supreme charisma and economic knowledge, two qualities that Figueiredo certainly lacked.

Finally, it has become clear that energy, and more specifically oil, had a huge role in setting up the great economic crisis of the 1980s. However, it was not in the ways that historians and economists have portrayed it to date. In using expensive oil in order to extend the life of an essential-
ly flawed development process, Geisel decided the fate of his nation. Determining the decision-making process under which a supremely qualified cabinet orchestrated the greatest Brazilian economic blunder of the 20th century will certainly be the topic of several academic works in the realm of history and economics.

It is also important to reflect if the artificial economic stability of the Geisel period was justifiable as a prerequisite for the Abertura. Geisel’s retirement to Teresopolis ended a ten-year process where Petrobras became a relevant player in the global oil market and a mature company. Despite these meaningful accomplishments, Geisel is indeed guilty of advancing an economic policy that led to foreign debt and hyperinflation. The following years of chronic economic instability would directly affect Petrobras’s ability to expand and compete with the other oil majors in the same way it did during the 1970s.

By 1979 oil policy already occupied a vital part of the Brazilian economic strategy. The push towards industrial development implemented by generals Medici and Geisel was impressive and helped Brazil to have a cycle of economic growth between 1968 and 1973. Without the massive oil imports orchestrated by Petrobras, the Foreign Office and the Ministry of Mines and Energy, none of this would have been possible.

By the time Geisel left power behind in March 1979, the 1973 Oil Shock felt like a distant event and the economy seemed to be under control, with Petrobras expanding its refining and exploration areas. The Campos Basin was becoming a promising reserve for the future, alcohol-powered cars were about to become a reality of the 1980s, and Brazil had built solid alliances in the Middle East that would guarantee a steady supply of oil.

All of these factors combined to give Brazil a false sense of security and prosperity, while providing Geisel with enough macroeconomic stability to push forward with his political transition towards democracy (Abertura). Beneath this thin layer of economic stability, powerful forces were already in motion that would bring about what many consider the largest economic crisis ever faced by Brazil. Exposure in the oil markets, heavy borrowing in the Eurodollar lending market, attached to the great bureaucratization and the indexation levels of the Brazilian economy would bring the shining colossus nurtured by the military to its knees.

It was clear that the fundamentals of the so-called “Brazilian Miracle” were essentially flawed: not even the most pessimistic analyst could have predicted the maelstrom that would commence in 1979. It seemed that a smooth transition from General Geisel to his appointed suc-
cessor, General Figueiredo, would set the tone for a calm return to democracy. Simply put, it was not meant to be that way, and 130 million Brazilians would have to pay a steep human cost during fifteen years of economic instability.

Until now, the Second Oil Shock and even heavier borrowing that were derived from it were considered to be the sole causes of the “Lost Decade”. Although oil bore a large portion of responsibility, the story is a lot more complex than it seems. Intense borrowing by the state was not merely an issue of oil; it was also a matter of economic planning, but above all, one of habit. The lack of rational economic planning is a habit that had persisted since 1822, the year of Brazilian independence.

Therefore, the goal of this chapter is to understand the role of oil as a cause of the Lost Decade. An analysis of how Brazil conducted its oil policy under General Figueiredo (1979-1985) and the first civilian president in twenty years, Jose Sarney (1985-1990) may provide us with an interesting perspective on why Brazil failed so miserably in achieving long term macroeconomic stability and efficiency gains. A gargantuan Petrobras, a dysfunctional National Oil Council, and an ineptly operated Finance Ministry will provide interesting insights into how the Brazilian Hydra brought instability for so long.

3.1 Figueiredo’s Administration Takes Over

In the same way that Ernesto Geisel was the handpicked successor to General Medici, General Figueiredo maintained the same relationship to Geisel. Joao Figueiredo had been a loyal friend and aide to Geisel for a very long time, since the days of the English Club in the 1950s.
where the Sorbonne branch of the military liked to socialize.  

345 Figueiredo also was running the pivotal National Information Service (SNI), putting the general in a privileged position to amass power and influence at the head of the military regime. All of these connections, attached to a stellar military career, placed Figueiredo in pole position to become Geisel’s successor, an outcome that by 1978 everybody in the upper echelons of power was pretty much certain of.

Despite coming from Rio de Janeiro, Figueiredo also had strong connections to the southern state of Rio Grande do Sul, as had the three previous military presidents. Like Medici and the Geisel brothers he had studied at the Military School in Porto Alegre making a name for himself for his physical and intellectual prowess.  

346 Since his early life, Joao Figueiredo seemed destined for great things, and he progressed fast in his military career, as many expected. Figueiredo was a huge fan of horse riding, calisthenics and soccer and in his more intimate social circle he was known to be funny and joyful, a contrast from the taciturn public character that would later become his trademark.

With this impressive resumé, Figueiredo seemed to be the perfect selection to lead Brazil back to a solid democracy, as was Geisel’s wish. The transition was smooth and the pro government public opinion was certainly excited. Veja magazine, usually supportive of the military regime, presented Figueiredo as the ultimate no-nonsense manager.  

347 Figueiredo would command respect from the civilian politicians, while also being able to contain the hardline branch of


\[\text{\textsuperscript{346} “Pisando no chao do exercito.” Veja. July 20th, 1977. Veja here was used in order to provide further detail on General Figueiredo’s life.}\]

\[\text{\textsuperscript{347} “O Ira vende”. Veja, March 21st, 1979. Veja was used here in order to demonstrate early coverage on the Second Oil Shock in the Brazilian press.}\]
the military, as they would probably would create obstacles to the democratic transition. Geisel granted Figueiredo an unusual set of conditions in the shape of a six-year term. He would be the only military president to have such a long period in office. His allies thought that a long term would bring stability, yet foes argued that it was “Geisel’s gift” for his protege, in order to satiate Figueiredo’s “power hunger”.

Considering it in hindsight, it seems that given the task of being the final military president, a longer term could have served as a beacon of stability, but also as security for the military in case the political opening got out of their control. In case things went wrong, Figueiredo would have the time and the means to reclaim control to the military and postpone Abertura as long as necessary. Theoretically, all the pieces of the puzzle were in place. In March 1979, nobody could imagine how inept Figueiredo would prove himself to be, the scale of the economic blunders made by Geisel and Medici, and how the political situation would so soon spin out of his control.

The first ominous signs started to show when Figueiredo’s transition team started to create the new cabinet. Instead of bringing in new names and leadership, Figueiredo opted for a mix of the Geisel and Medici cabinets. That was certainly a recipe for disaster, since both former presidents had mainly picked different people because their personalities and leadership styles were totally different. In the vital realm of economic management, Figueiredo put together a very odd cast of characters.

349 Idem.
First, he transferred Mario Henrique Simonsen to the Planning Ministry, but with enhanced powers as an “Economy Czar.” Theoretically, this was interpreted as a clear mandate for Simonsen to pursue more orthodox policies. Simonsen would team up with Karlos Rieschbieter, who was at the Finance Ministry, and who was as orthodox. But, the oddest move of all was appointing Delfim Netto, Medici’s self absorbed former Finance Minister, as Minister of Agriculture. The theory was that this would be a sign that Figueiredo was determined to bring a new focus to agriculture, a rather forgotten aspect of the Medici and Geisel regimes.\(^{351}\) Since commodity exports were still important for the country’s trade balance, it made sense to foster them, together with manufactures. However everybody in Brasilia wondered how long Delfim would accept receiving orders from Simonsen.\(^{352}\)

For the energy sector, Figueiredo also opted for another rather strange arrangement. Shigeki Ueki, the all powerful energy czar under Geisel, would be moved to become the new president of Petrobras. This seemed to be good news for the company, since Ueki was definitely Petrobras’ supreme insider and understood the company’s ambitious expansion plans for the 1980s. However Figueiredo’s transition team presented Cesar Cals as the new Mines and Energy minister, a loyal and ambitious politician from the northern state of Ceara where he had been governor and senator. Cals had experience in the matter, since he was an electrical engineer; and a former military officer who had conducted strategic energy planning in the 1960s.\(^{353}\)

\(^{351}\) “A Guerra Comecou.” Veja. July 11th, 1979. Veja was used here in order to demonstrate early coverage on the Second Oil Shock in the Brazilian press.

\(^{352}\) Idem.

Cals was determined to take the levers of Petrobras himself, and not abide by Ueki’s dic-
tum in one of the country’s most important issues. To make matters even worse, Figueiredo
picked Aureliano Chaves to be vice-president. Chaves was the former governor of the pivotal
state of Minas Gerais, and also an engineer with energy expertise. Chaves was also known in
Brasilia for being a man with huge ambitions for the future, considering his options for the presi-
dency in 1985. The new vice-president also had extensive knowledge in the energy sector, and
prided himself on being a connoisseur of that topic, albeit with a focus on electric power. This
unconventional arrangement clearly differed from the Medici and Geisel regimes, where the hi-
erarchy in the energy sector had always been pretty clear. A misguided setup to address a prob-
lematic phase of economic change would prove to be disastrous for the Figueiredo administra-
tion.

One of the few places where the old order seemed to remain intact was at the Foreign Of-

cice, also known as Itamaraty. The former Chancellor, Azeredo da Silveira, was replaced by
Ramiro Saraiva Guerreiro, who was also a career diplomat. Guerreiro and Silveira shared the
same core beliefs about how Brazilian diplomacy should be operated. The focus should still be
on maintaining Brazil’s independent position, instead of an unconditional alignment with the
United States, while albeit clearly identified with the Western camp. The goal was also to fos-
ter Brazilian exports in new markets of the developing countries and consolidate economic ties

354 Vizentini, Paulo Gilberto Fagundes. 1998. A política externa do regime militar brasileiro: multilateralizaçao,
versidade Federal do Rio Grande do Sul. p.315
Atica.P.277.
with Latin America, while not forgetting about more traditional trade partners such as the United States, Europe, and Japan.\textsuperscript{355}

In the realm of the Great Oil Diplomacy, the goal was to keep the work coordinated with Petrobras and its foreign subsidiaries, BRASPETRO (exploration and services) and INTERBRAS (trading). The alliance between the company and Itamaraty had blossomed into a very complex and prosperous relationship, one that saw Brazil’s presence in Africa and the Middle East reach impressive heights.\textsuperscript{356} Brazil consolidated a wide range of strong, albeit problematic partnerships, such as those with Iraq, Iran, Algeria, and Nigeria. Those partnerships managed to provide Brazil with the oil supplies it needed for the military’s industrial push towards becoming a developed nation. Brazil, still needed to cover 80\% of its needs with foreign supplies.\textsuperscript{357} Saraiva Guerreiro’s goal was to keep the essential blueprint of the Great Oil Diplomacy intact, expanding when possible and avoiding a potential supply crisis.

Since Joao Figueiredo inherited from Ernesto Geisel a plethora of energy projects, the new president did not have a lot of room for maneuver in his energy policies. Given these political and strategic constraints, President Figueiredo opted to stay the course and expand Brazil’s energy matrix as envisioned by Geisel. Joao Figueiredo’s term in office ended up becoming one of the most consequential in Brazil’s history in the area of energy development.

From 1979 until 1985, Brazil’s energy consumption patterns changed dramatically. Data from that period points to a substantial growth in the output of domestic oil, hydropower and

\begin{flushright}
\textsuperscript{355} Idem.
\end{flushright}
sugar cane alcohol. By the time Joao Figueiredo left office, hydropower overtook oil as the main energy source in Brazil, representing 43% of overall energy consumption by 1985, against 37% for oil. This period also saw the rise of alcohol consumption as a fuel source by Brazilian cars, which expanded from less than 5% of the overall consumption in 1976 to 15% in 1985. Finally, the period saw the demise of firewood as a form of fuel, since hydropower and oil took over its previous role as the main energy source for agribusiness in Brazil.358

Despite internecine conflict in Joao Figueiredo’s cabinet and the immense problems faced by the ambitious Brazilian nuclear program, there were several accomplishments in the area of energy for the last general-president. These included the conclusion of the giant Itaipu Dam (1984) and the full commercial development of the Campos Basin, which saw Brazil domestic oil output jump from 160,000 bpd in the late 1970s to more than 400,000 bpd by 1985.359

These accomplishments were the culmination of the military junta’s energy goals established in 1967. Brazil’s energy matrix was more diversified than ever, and its foreign dependency on energy sources fell to a historic low. But, the cost of implementing that change had a huge economic cost, which eventually became the Debt Crisis of the 1980s.

On March 1979, Joao Baptista Figueiredo was inaugurated as the new president of Brazil. On an occasion full of fanfare, lavish state dinners and a 600 car motorcade, observer might believe that they were witnessing a country at the pinnacle of its success. His inauguration was marked by a symbolic mass at Brasilia’s national cathedral followed by a speech where

Figueiredo vowed to keep the course set by Geisel of *Abertura* and development.\footnote{A posse do Presidente Joao Figueiredo. Youtube, accessed on February 27th 2016 at 5:17 PM. Url: \url{https://www.youtube.com/watch?v=nPh8Gkm_OGE}} It is impossible to know, but Figueiredo may have thought he was assuming power from a position of strength; nothing could be so far from the truth. By the time salmon and pheasant were being served at the inaugural dinner, a war between two of Brazil’s largest oil suppliers was about to begin. The Second Oil Shock in 1979 would set the course for the Lost Decade. Figueiredo would soon be aware of how fragile his position actually was.

3.2 The Second Oil Shock

One of the pivotal events of the 20th century was the Iranian Revolution (1978-1979) and its aftermath. After Shah Reza Pahlavi had been expelled from the country and replaced by the Ayatollah Khomeini, one of the most important Shia theologians of his age, no one knew what to expect from the new regime, especially regarding its oil policies. Iran had been an ambitious developing nation with a powerful military power, which was the Shah’s darling. At first, it became clear that the anti-American discourse implemented by Khomeini and pushed forward by the cadres under his command would make the situation more unstable and unpredictable for both sides. Iran had been a vital oil supplier to Western Europe and Japan, and an important purchaser of military equipment and services from the United States.\footnote{Axworthy, Michael. 2013. Revolutionary Iran: a history of the Islamic republic. Pp. 137-186.}

The revolutionary chaos threw the Iranian Oil Company (NIOC) into complete disarray. Initially, Khomeini did not have a very positive view of oil business at all. He believed the coun-
try should focus its efforts on what he saw as more constructive elements of industry and agriculture. The goal was to move away from rentierism, which he perceived as immoral. For one of the world’s largest oil producers to face such an acute crisis was enough to throw the whole oil market into a maelstrom. The world was still slowly recovering from the impact of the 1973 Oil Shock, adapting to a new reality where OPEC and producers dictated market prices. As soon as the global markets adapted to that reality, while having to deal with a global inflationary surge, Iran had once again caused great instability. Prices started to rise to close to US$ 34.00 (1979 dollars) a barrel with the fear of huge losses in Iranian output by early 1979, a situation that would only get worse with the rising tensions between Iran and Iraq in 1980.

The Iraqis were also facing a moment of transition, although the secular Baath party was still in power. Its new absolute ruler, Saddam Hussein, was determined to consolidate the party’s hold on power at any costs, after staging a party coup in 1979. Iraq was also a vital producer of Middle Eastern oil sector but its diplomatic relations were a constant source of worry for its buyers. Saddam Hussein’s Iraq developed an almost immediate disgust for Khomeini’s regime, which built on other longstanding disagreements between the two nations.

By the late 1980, with both nations on a collision course and Iranian supplies drying up, industrialized countries started to panic and hoard larger oil reserves. Given the uncertainty that surrounded the global oil situation, OPEC countries were shying away from making long-term contracts with fixed prices. The side effect of this was a growth in spot market sales, mainly

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362 Idem.
Based in Rotterdam. Until that point, the had been market was only a minor part of the global oil market as a whole. Yet as industrialized nations hoarded oil and producers started to channel their products to the spot markets, prices rose substantially. The steep price increase of more than 150% from 1973 level promised to cripple oil importers, most of whom were already dealing with rising inflation stemming from the 1973 Shock.

From day one the talk of a Second Oil Shock reverberated strongly in the Brazilian government and media. Brazilian rulers remembered the nasty effects of the first shock on the country’s economy and what that meant to the military regime. As seen in chapter 2, Geisel used the little margin he still had in foreign borrowing to push for an even stronger industrial drive, while neglecting the core problems of the Brazilian economy. The federal government’s budget still faced huge problems; inflation and indexation were at the same time affecting lower incomes and efficiency gains in the whole economy.

Figueiredo understood the potential pitfall that a Second Oil Shock could represent to the country’s feeble economic situation, and what it could mean to his still infant term in office. The mood within the government was to fully mobilize when the first signs of a major crisis in Iran were brought to Itamaraty. Several reports were coming in from the Brazilian diplomatic post in Tehran warning that Iran’s sales policy was changing fast. The first challenge for Petrobras was that they did not know with whom they were actually negotiating. There were still some old

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executives at NIOC, people that Petrobras knew well. Nevertheless these veterans were often overruled by the Ayatollah’s political cadres.\textsuperscript{368}

By the middle of 1979, alarms were ringing all over Itamaraty and Petrobras, especially when Iranians warned that their current 160,000 bpd contract would not be fulfilled. NIOC warned that it could not possibly settle for less than half of that with prices that averaged between $28.00 and $32.00 per barrel, with a $5.00 premium.\textsuperscript{369} This would mean a huge disaster for the Brazilian economy, since it threatened to bring the country to a virtual state of bankruptcy. Brazil had been borrowing heavily since the early 1970s and yet borrowing even more seemed to be one of few short-term solutions.\textsuperscript{370} The other option was to introduce rationing and induce a mild recession to contain demand but this remained anathema to the Figueiredo administration. Like previous military administrations, GDP growth was supposed to be the main economic policy attached to industrial development. Bringing that to a halt was not an option.

This meant that Simonsen’s gospel of orthodoxy and frugality was already bridling Figueiredo and his allies. Simonsen tried to argue for slower GDP growth for the economy and greater accountability of state expenditures.\textsuperscript{371} Within the realm of gasoline prices, The National Oil Council frequently increased gas prices to diminish domestic oil demand, a policy supported by Ueki. However those close to Figueiredo, especially Cals and Chaves, had different thoughts about how exactly oil prices should be controlled, and were already whispering in the president’s

\textsuperscript{368} 16/04/1979. BRASEMB Teera para ministro Cesar Cals.663.63 (E9) (B46)
\textsuperscript{371} “As Duas unicas opções.” Veja. July 17th, 1979. Veja was used here in order to demonstrate the coverage on the Second Oil Shock in the Brazilian press and how in their view the government handled the crisis.
ear about changes in these long established policies. For them, Petrobras was receiving too much of a free pass while the government had to bear the burden of unpopularity. Figueiredo believed that it was time for Petrobras to offer its quotient of sacrifice to the nation by freezing prices.\textsuperscript{372}

Meanwhile, another pivotal chapter of the Great Oil Diplomacy was being written. Figueiredo ordered his foreign Chancellor Guerreiro to contact allies in Africa and the Middle East in order to guarantee oil supplies and avoid a severe oil shortage that was feared by the Brazilian authorities at the time. The scramble for oil in 1979 and 1980 was rather disorganized and desperate, compared to 1973 when a similar initiative implemented during the previous oil shock had seemed to follow a clearer compass. In 1973 Itamaraty had a clear list of which countries which they aimed to court and a clear plan to expand Petrobras abroad in order to compensate for expanding oil expenditures. They also had a closer relationship with Petrobras, which could be seen in their joint meetings and seminars that happened right after the 1973 crisis.

By 1979, it is possible to infer from the diplomatic sources that the same level of coordination and partnership did not exist anymore. Each branch of the Brazilian state was essentially acting on its own, which clearly showed the Figueiredo administration’s lack of direction. Itamaraty and Petrobras started frantically scouring the world for oil deals, none of which made a lot of economic sense. The clearest sign of this lack of a coherent policy was revealed in some of the oil deals agreed to by the Brazilian government between 1979 and 1982. Brazil found new suppliers in China, USSR, Mexico, Angola, and Venezuela. They continued in their problematic oil partnerships with Libya and Algeria, not to mention the disputed oil trade with Nigeria. All of these deals proved to be diplomatically tricky and financially crippling.

The only resemblance between this period and the 1973 Shock was that Brazil first looked for reassurance from its traditional suppliers such as Iraq and Saudi Arabia. After the Second Oil Shock, Itamaraty was receiving alarming reports from its embassy in Baghdad. In diplomatic communications the Iraqi government asserted that it could not guarantee Brazil its usual quota, about 30% of Brazil’s overall foreign purchases. On top of that, Brazil and other Western nations were heavily exposed by their investments in Saddam Hussein’s public works boom. Brazilian companies had also made significant sales of weapons, grains and other manufactured products.

Braspetro had been responsible finding the giant Majnoon field near Basra, and Petrobras was contractually entitled to full exploration. By the time of the 1979 Shock, Petrobras was due a considerable compensation package for a breach of contract by the Iraqi government that had taken place involving the exploration of Majnoon. The Brazilian government had to endure severe criticism even from some of its political allies for “quitting” on the Iraqi field that could have solved Brazil’s oil problems all at once. The aforementioned compensation package never was acknowledged as per the above mentioned report.

376 The deal struck between Brazil and Iraq predicted a compensation of 11.5 million oil barrels that INOC was supposed to give to Brazil. With the beginning of the Iran-Iraq war the deal and Iraq’s economic meltdown that followed the war rendered the agreement useless for Brazil. Source on the agreement: Petrobras S.A. (1979). Relatorio Anual Rio de Janeiro: 1979. p.15.
er materialized, but even under those circumstances, it was not an option for Brazil to discontinue its business with Hussein’s Iraq.

In 1980, the government understood that it had to fill a hole in its supplies of 200,000 bpd lost because of the Second Oil Shock and the Iran-Iraq War. Despite the advances of alcohol or the US$ 7 billion investment made in Campos so far, the government understood that the results from this would only emerge in the long term. Right after the Second Oil Shock, Brazil had to rely upon its traditional Saudi Arabian “guardian angel”. In an act that demonstrated Figueiredo’s desperation during the crisis, he personally wrote a letter to the Saudi King Khalid, asking him to be kind towards Brazilian needs, especially if purchases could be made through Petromin (Saudi’s state company) instead of ARAMCO.377 Ambassador Murillo Gurgel was involved in tough negotiations with Sheikh Yamani and other Saudi oil authorities. Letters from other Brazilian authorities also reinforced the Brazilian need for further Saudi oil.378

For the Saudis, who were leading OPEC at that time, the turmoil in the oil market was bad for business in general. While more rebellious countries thrived on the idea of prices skyrocketing, the Saudis feared that some of their most important buyers would struggle, causing a sharp fall in oil demand. For the Kingdom, it was pivotal to have a steady demand and stable


378 03/03/1979. BRASEMB Jeddah. Fornecimento de Petroleo saudita para o Brasil. 663.63 (E14) (B46)p.2
22/02/1979. BRASEMB Jeddah para exteriores BSB. Compra de petróleo saudita. 663.63 (E14) (B46)p.1
04/03/1979. BRASEMB Jeddah. Compra de petróleo saudita. 663.63 (E14) (B46)p.1
prices, not chaos and instability. In that sense, addressing the buyers’ needs was seen as fulfilling its own strategic needs. Therefore, the order given by Sheikh Yamani was to expand Saudi oil production in 1981, keep prices under control and engage its closest allies as the pillars of the Saudi policy.

In the end, Brazil got what it needed from the Saudis, which meant an extension of its oil contracts into what was called the “war emergency fund”. The Saudis also helped to negotiate deals for Brazil with Kuwait and Qatar, deals that helped to solve almost half of the shortfall. Still, Brazil had to secure sizable deals from countries that were subject to complicated circumstances or simply newcomers to the international oil market. In return for Saudi assistance, Brazilians had to agree to a trade-off. Brazil agreed to adopt a series of pro-Arab positions in the United Nations and pushed forward a proposed PLO embassy in Brazil. As seen before, although Brazil was implementing a pro-Arab policy, an PLO embassy was politically tricky and not fa-

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380 Idem.
382 31/10/1979. Para BRASEMB Kuwait. Convite ao ministro do petróleo do Kuwait para visitar o Brasil. 663.63 (E5) (B46) p.2
22/02/1979. BRASEMB Abu-Dhabi para exteriores. Petroleo. Gestores para fornecimento adicional de petróleo dos Emirados Arabes Unidos. 663.63 (E6) (B46)p.1
03/81. BRASEMB Coveite. Relacoes com o coveite. Abastecimento de petroleo. 663.63 (E5) (B46)p.1
05/05/1981. Kuwait. Relações com o Brasil. Petróleo. 663.63 (E5) (B46) PP.1-3
During 1979 until 1981 Brazil was buying an average 180,000 bpd from Saudis and between 60,000 and 80,000 bpd from Kuwait. That was enough to compensate for the Iranian shortage.
vored by the military junta. They tried to provide diplomatic support for Saudi causes in the United Nations as a form of compensation.\textsuperscript{383}

Another important round of oil negotiations was conducted between Brazil and several African nations. Since the early 1970s, oil trade with African countries had become a high priority for Brazilian diplomats and the results so far seemed to be positive. The main supplier was Nigeria, but even those deals were for around 30,000 bpd, a small fraction when compared to the agreements with Saudi Arabia or Iraq. Nigeria had always been a tough spot for Brazil, despite its immense potential. By the late 1970s, Brazil was exporting a wide array of products to the country, whose economy was expanding as part of a huge development plan. Brazilian trading companies such as Interbras and Cotia were exporting a wide array of goods, such as cars, air conditioners, and beef.\textsuperscript{384}

Negotiations with the Nigerian Oil Company (NNOC) had to go through its powerful president, Festus Marinho. Problems in delivery and supply had plagued previous attempts to establish major oil deals, despite the good quality of Nigerian oil.\textsuperscript{385} After several weeks of negotiations, Brazil was able to set a deal that would have seen its Nigerian purchases increased by at least 15,000 bpd.\textsuperscript{386} But, Festus Marinho demanded that half of that additional volume had to be

\textsuperscript{385} 12/12/1979. BRASEMB Lagos. Economia, Brasil-Nigeria. Petroleo. 663.63 (A28) (B46) Pp.3-6  
\textsuperscript{386} 01/02/1979. BRASEMB Lagos. Abastecimento de petroleo. 663.63 (A56) (B46) Pp. 1-5  
01/02/1979. BRASEMB Lagos. Abastecimento de petroleo. 663.63 (A56) (B46) Pp-1-5


bought at spot market prices which by the early 1980s were much higher than regular prices. Brazilian diplomats and Petrobras officers had to concede to the Nigerians’ demand. The loss of some of the Arab supply, the feeling of insecurity brought about by the 1979 oil shock, and the real possibility of an economic meltdown did not leave Brazil with many options. The deal was set according to Nigerian terms and Brazil received badly needed relief for her falling oil stacks.

The deals with Algeria had soured a little after peaking in 1974, when Brazil was engaged in a huge partnership deal with Sonatrach. By 1978, these deals had diminished in importance due to the fact that Algeria was setting prices that Brazil considered to be too high. The constraints brought about by the 1979 crisis obliged Brazil to return to the negotiating table with Sonatrach, which now had the leverage due to the global oil crisis. Brazil’s edge was its trade surplus that it ran in Algeria, and the Algerians were desperate to use oil sales to compensate for the Brazilian surplus.

Between 1979 and 1980, another comprehensive cooperation package was signed between Petrobras and Sonatrach. This new package included an impressive $30 million investment by the Brazilian company, a sum which was to be directed in exploration investments by Petrobras into Algerian oil fields. This new deal guaranteed for Petrobras oil supplies that helped little in filling the shortfall, but at this point every single barrel mattered. The deal, intended to

390 29/08/1979. BRASEMB Argel para exteriores BSB. 664.(00)p.1
last until 1985, also helped to further the presence of Brazilian companies and multinationals operating in Brazil into the Algerian market.\(^{391}\)

Brazil still remained a strong player in Algeria, where it exported a wide array of products such as cars, refrigerators, and other manufactured goods. In this new cycle of Algerian-Brazilian relations, engineering and construction firms also had the edge when participating in the Algerian government’s public works program.\(^{392}\) Brazilian construction firms such as Mendes Junior and Montreal were obtaining generous contracts, while Braspetro operated new exploratory fields.\(^{393}\) Theoretically all seemed to be in place, but the Brazilian-Algerian oil deal masked a new trend in Brazilian foreign policy as Figueiredo’s administration consolidated an approach that had already been developed toward the end of Geisel’s administration. Brazil was increasingly forced to accept unfavorable oil deals for the sake of boosting exports, the priority of the military junta. Those deals were costly for Petrobras, that had to manage the challenge of paying for expensive oil without overburdening the domestic market. This conundrum that the government had presented to Petrobras was about to become a source of contention between the oil company, Itamaraty and the trading companies. Their alliance held while the 1979 Oil Shock still affected Brazil, but that harmony would not last for long.

\(^{391}\) 17/10/1979 - BRASEMBAr gel. Petroleo/Argelia renegociacao acordos. 663.63 (A28) (B46)p.1  

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During the 1970s, Brazil tried to explore the possibility of finding new partners in Africa. At first, Gabon appeared promising, but it never really took off.\(^{394}\) Other attempts were made through joint-ventures with the majors in Congo or the prospective joint-venture proposed by Cabo Verde and Ghana.\(^{395}\) This was a clear sign of the degree to which Petrobras had made a name for itself in Africa through the globalization initiated by Geisel. But, the place where Petrobras was indeed a pioneer with positive results was Angola. After several years of a bloody colonial war followed by an even more violent civil war, the Marxist movement MPLA started to secure a stronghold in the country’s government.\(^{396}\)

Upon Angola’s independence, the bold move made by Brazil in recognizing the MPLA government immediately paid off.\(^{397}\) Petrobras was able to secure early access to oil exploration in Angola, and started to establish a closer partnership with the newly created Angolan State Oil Company (Sonangol). That partnership guaranteed Petrobras access to at least two profitable areas of exploration, plus the research being conducted on the new ones.\(^{398}\)

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\(^{395}\) Idem.


\(^{397}\) Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry.Pp.221-263.

\(^{398}\) 31/01/1979 - Brasemb Luanda para exteriores em BSB. 663.62 (A49)p.1

27/04/1979. Memorando para o sr. chefe da DEM. Producao e disponibilidade de exportacao de Petróleo de Angola.p.3


vious Algerian deals. As one Brazilian diplomat emphasized in his correspondence to Brasilia, Angola was not merely consuming Brazilian exports and technology, it was eager to consume Brazilian culture.\textsuperscript{399} According to the same diplomat, Brazilian soap operas such as \textit{O Bem Amado} were already the most popular TV shows in the country.\textsuperscript{400}

The majors coveted the promising Angolan oil fields, while the new MPLA government was keen to attract foreign investors. Petrobras fostered hopes that it would have the lead in the market for longer, but that was not meant to be.\textsuperscript{401} Between 1979 and 1982, Petrobras saw its position in Angola increasingly challenged by the Majors’ growing penetration, especially by Gulf oil, which operated in the profitable Cabinda field.\textsuperscript{402} The Angolan government through its powerful Energy Minister Pedro Van Duren sent messages through President Santos’ brother-in-law Monty that Angola wanted to expand exploration rights to other companies.\textsuperscript{403}

Instead of clashing with the MPLA’s new policies, Petrobras opted for a pragmatic approach. The company established extensive joint-ventures with Texaco and Elf Aquitaine, whereby the three companies would explore the highly coveted Bloc II, one of the most profita-

\textsuperscript{400} Idem.
\textsuperscript{403} 31/01/1979 - Brasemb Luanda para exteriores em BSB. 663.62 (A49)pp.3-5
ble areas in Angola. Petrobras was also helping the Angolan government build Sonangol from scratch. A comprehensive personnel training program called Proquadros was one of the main features of the Petrobras-Sonangol cooperation. Braspetro was also conducting diverse oil services not only for Sonangol, but also for the other Majors that were also operating in that area.

Despite the perennial political instability of warfare between the MPLA and UNITA that continued to plague Angola, Petrobras envisaged a prosperous environment in the future. Brazilian diplomats and Petrobras executives often affirmed in their correspondence that despite rumors of attacks to oil installations in the country, on their travels these facilities were always effectively secured by the armed forces. The Brazilian version of events seems likely, given that oil exploration in Angola expanded during the 1980s despite the lack of a peace accord between both sides. The Angolan agreement was Brazilian foreign policy at its best, exploring available opportunities in order to create new niches of economic and political influence. It became one of the few successes of Figueiredo’s oil foreign policy in a period marked more by bad oil deals than by victories.

The Brazilian scramble for oil during the 1979 Oil Shock would culminate in the creation of new trade ties and a rapprochement towards some old forgotten suppliers. In that sense, given

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its need for more than 900,000 bpd in 1979, Brazil saw itself as obliged to negotiate with countries that had either shown themselves to be extremely tough in the past or countries that the military junta disagreed with on ideological grounds. In that context, the Brazilian oil deals with China, the Soviet Union, Venezuela and Mexico may enlighten as to the the flexibility of Itamaraty and Petrobras. They also allow us to develop a better understanding of the sense of desperation that surrounded the Figueiredo administration in 1979 and 1980.

Brazil’s diplomatic approach to the People’s Republic of China was another of Geisel’s gambles as president that presented some positive results. Suddenly after diplomatic ties were established in 1976, trade negotiations between the two countries were initiated. By 1979, trade between them was growing modestly, with some Brazilian commodities especially sought after by the Chinese. During the new Oil Shock, China was also able to offer oil. It is hard to think of China nowadays as an oil exporter, but that was the case in the late 1970s.

One of Mao Zedong’s few successful economic initiatives was the major exploration project of the Daqing Field, in northeastern China. It was characteristically built upon a considerable sacrifice on the part of Sinopec’s workers under extreme conditions. When the possibility of an oil deal was presented to Petrobras in 1978, the company’s technicians were initially not really enthused. Chinese oil was of inferior quality and Petrobras’ fleet would have trouble finding a

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408 Pinheiro, Leticia. 2013. Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry.pp.221-260
suitable port for its heavy loads but Figueiredo wanted the deal to move through so it had to happen for the sake of oil supplies and foreign trade.  

In the end, after long and tough negotiations Brazil and the PRC finally reached a deal that seemed to be reasonable for both sides. Brazil would acquire small quantities of Chinese oil in exchange for Brazilian sugar purchased by the Chinese government. Petrobras was enticed into accepting the deal by the prospect of a cooperation contract with Sinopec. The Brazilian company, through Braspetro, would conduct offshore exploration in the South China Sea and would also help Sinopec to build a modern refinery in Shenzhen. No one would have ever predicted that this small deal would be the beginning of a massive trade relationship in the future, one that would see China as a major investor in Brazilian oil fields, and even more importantly lead to the rise of China as Brazil’s main trade partner.

Brazil’s deals with Soviet Union were less mutually beneficial than the one made with China. Despite the willingness of the Brazilian government to engage the Soviet Union in larger trade deals since the early 1960s, but both countries indulged in protectionism and their core trade was not complimentary. Brazil had virtually no interest in the USSR’s industrial goods, and the Soviets were erratic buyers of Brazilian commodities. The 1979 Oil Shock provided both countries with a chance to reexamine their trade relations. Despite the prowess of its oil industry

410 13/01/1978. Azeredo da Silveira (ministro de estado das relações exteriores) para Shiegeaki Ueli (ministro das minas e energia). petróleo Brasil-China. 663.63 (E33) (B46) p.1
411 Brazil bought during the 1979 Oil Shock around 10.000 bpd. After 1982, those contracts faded away despite the development of Brazil-PRC trade.
and reserves, the USSR struggled to build sustainable supply chains for major exports, since its domestic market and Warsaw Pact allies consumed most of its oil output.\(^{413}\)

Despite these major hurdles, the Brazilian government approached Soyuzneftexport (oil export agency) in order to arrange for a major oil deal. From the offset negotiations were extremely tough though. Mr Zinoviev, Soyuzneftexport’s representative, appalled Brazilian diplomats and Petrobras executives with the prices and trade practices implemented by the state company. First, the Soviets were charging between $35.00 and US$ 38.00 FOB per barrel, against the average of $30-32 that was being charged by OPEC nations.\(^{414}\) According to the BP Energy Charting Tool, the prices practiced by the Soviets were on average US$ 1.50 above the spot market average prices for 1980 and 1981. Second, the Soviets insisted that shipping had to be conducted by their own tankers, not the Brazilian ones.\(^{415}\) This single factor represented a major break with one of Petrobras’s most important policies, and would have incurred additional costs to the Brazilians.

Once again, the Figueiredo administration folded to Zinoviev’s excessive demands and the expensive Soviet oil was acquired. Somehow, Brazil had hopes for expanded trade with the Soviets, despite the lack of interest shown by the Soviet authorities in acquiring Brazilian manu-

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factured products.\footnote{07/02/1980. Para BRASEMB Moscou. Negociacoes comerciais. URSS. 663.63 (B46) (F45)pp.1-2.18/11/1981. BRASEMB Moscou. Comercio Brasil-URSS. Visita de representantes da Petrobras. 663.63 (F45) (B46) pp.1-2.17/06/1981. BRASEMB Moscou. Petronin.663.63 (F45) (B46) pp.1-3.19/05/1981. Para ilustrissimo senhor Carlos Sant’Anna. Diretor comercial da Petrobras S.A..Comercio. Brasil-URSS. Oferta de petroleo Sovietico. 663.63 (F45) (B46) pp.1-2} Brazilian purchases in the USSR were made regularly until 1982 as part of a costly exchange of Brazilian agricultural products (mainly sugar) and overpriced Soviet oil (US$38.00), filling 2% of Brazilian needs by 1979.\footnote{05/02/1981. Para BRASEMB Washington. Energia. Petroleo. URSS. 663.63 (F45) (B46)} The oil policy towards the USSR became a symbol of how costly deals by the Figueiredo administration ended up overburdening Petrobras and compromising its financial position in the 1980s. The fact that Figueiredo’s cabinet could not decide whether the priority was oil or broader trade needs generated initiatives where high expectations simply could not be fulfilled with negative consequences for the Brazilian company.

Another problematic deal conducted by the Brazilian government was made with Mexico. Brazilian-Mexican trade relations had never actually taken off during the second half of the 20th century as both countries were interested in selling the same products and protecting their respective industrial sectors. Despite the lack of synchrony in Mexican-Brazilian trade, the Mexican oil company (PEMEX) had a good relationship with Petrobras. Beginning in the mid 1970s both companies held executive meetings in Mexico and Brazil, where they shared experiences of corporate administration and offshore exploration.\footnote{17/01/1979. BRASEMB Mexico Petroleo. Compra de Petroleo Mexicano. 663.63 (B14) (B46)pp.1-2.17/01/1979. BRASEMB Mexico. Petroleo. Compra de Petroleo Mexicano. 663.63 (B14) (B46) pp.1-4} Several attempts were made by Petrobras to
make oil purchases in Mexico, but an agreement regarding prices and quantities had never been reached.\textsuperscript{419}

The new Brazilian oil needs and the will of the Mexican president Lopez Portillo to expand oil exports and take some of OPEC’s market share created the necessary conditions for the implementation of a broader oil trade agreement between Petrobras and Pemex. Between 1979 and 1982 intense negotiations took place between both companies’ executives.\textsuperscript{420} Despite the fact that Pemex was unable to provide the large quantities, initially desired by Petrobras, both sides continued negotiating. It is important to emphasize that Mexico was constantly expanding its oil output during the Lopez Portillo presidency, and the fact that most of its oil exports were focused on the US market were in the end the major obstacle to increase PEMEX’s sales to Petrobras. \textsuperscript{421}

By 1980, a major deal was reached between the two companies, one that made purchases from Mexico around 6% of Brazilian needs, priced around US$ 35.00 a barrel.\textsuperscript{422} In spite of the fact that the focus of Mexican oil production was the US market, a major deal with Brazil seemed to be an important step in improving trade relations between the two countries. For Brazil, Mexican oil became a huge solace during the 1979 shock. Such an important deal between

\textsuperscript{419} 09/02/1979. Petroleo, viagem, compra de cru. Viagem do dr. Paulo Bellotti. pp.1-4
\textsuperscript{420} 22/03/1979. Petroleo. Mexico, contrato com o Brasil. 663.63 (B14) (A46) pp.1-3
\textsuperscript{422} 31/10/1980. BRASEMB Mexico para exteriores. Relacoes Brasil-Mexico. Petroleo. 663.63 (B40) (B46)pp.1-2
\textsuperscript{424} 10/04/1981. Para BRASEM B Mexico. Brasil-Mexico. Petroleo. 663.63 (B14) (B46) pp.1-4
two of the largest economies in Latin America called the attention of the international media and
the future seemed to be promising.  

Despite an extremely promising start, the low quality of the so-called “Maya Oil”, heavy
in high sulphur, disappointed Petrobras executives. On top of that, the Mexicans regularly failed
to make the oil deliveries in the fixed dates. What started as a “brotherhood of similar compa-

nies” ended up with a debt crisis in 1982. In essence, the Mexican priority had always been the
US market and supplying to other nations only came as an afterthought. Moreover, Pemex faced
technical obstacles to expanding its oil supply, since the Tabasco field was still not in full pro-
duction. In the end the lack of trade alignment, technical issues, and the 1982 Debt Crisis ended
the Petrobras foray into the Mexican oil market. Once again, the pattern of clumsy short-term
deals from Petrobras during the Figueiredo administration contrasted with the well-planned, long
term focused oil deals that had been a feature of the Geisel and Medici regimes.

Venezuela had been perhaps Brazil’s oldest oil supplier, since the 1930s when Shell and
the other Majors operating in Brazil were responsible for bringing the heavy Venezuelan crude to
the Brazilian shores. By the 1970s, with the establishment of Geisel as Petrobras president, that
relationship had soured. Geisel thought that expensive Venezuelan oil and its conservationist
policies were only damaging Brazil’s finances, and had opted to instead invest in the Middle
East. When Geisel became the president of Brazil, Itamaraty memorandums showed that there
was even an anti-Venezuela policy regarding oil purchases. Within government circles, Vene-


\[424 \quad 16/09/1972- Circular Postal N 1631. 1 Reuniao de Ministros de minas e energia da America Latina. pp.1-3\]
Venezuela was presented as a staunch OPEC ally and an “enemy of Brazil”.\textsuperscript{425} Venezuela’s radical conservationist policies implemented by President Carlos Andres Perez were seen as a major obstacle to Brazilian economic development and oil needs.\textsuperscript{426}

Andres Perez’s policies meanwhile led to an epic investment plan of US$ 53 billion, in an attempt of creating a national industry using the increasing oil windfalls after the 1973 global price increases. Terry Lynn Karl analyzed how the industrialization project conducted between 1973 and 1983 failed, putting Venezuela in the awkward position of having to seek the IMF to help with its external debt. The pressing needs to have more resources as PDVSA took over the lead of Venezuela’s oil business, made the President Luis Herrera Campins (1979-1984) to start a rapprochement with Brazil, who was desperate for new oil sources during the Second Oil Shock.\textsuperscript{427}

By the time of the Second Oil Shock, Venezuela had a different president, the country was conducting major development projects, and Brazil needed to cover its 200,000 bpd gap. This new scenario provided Figueiredo’s administration with the opportunity for a major turn in Brazilian foreign policy towards Venezuela. In 1979 the rapprochement started and was welcomed by the Venezuelan government as a gesture of friendship. Suddenly, Brazil’s tone regarding Venezuela’s oil policies was softened and the possibility of a deal that could involve a broader economic cooperation suddenly became possible. During their talks, Brazilian and Venezuelan

\textsuperscript{425} Idem.
\textsuperscript{426} Idem.
diplomats together with Petrobras and PDVSA executives debated border cooperation, joint infrastructure projects and oil partnerships abroad.\textsuperscript{428}

The 1979 rapprochement allowed Petrobras to secure significant oil deals with PDVSA. Contracts that would last for at least three years and where Petrobras cap of Venezuelan oil could reach 80,000 bpd were seen as a major gain by the Figueiredo administration in a time of crisis.\textsuperscript{429} This oil agreement marked a new era in Brazilian-Venezuelan relations where several projects were developed in different areas. PDVSA and Petrobras started exploring oil together in Guatemala, in what came to be quite a successful joint-venture during the 1980s.\textsuperscript{430}

Another Brazilian company that came to benefit from closer relations with Venezuela was the mining giant, Vale. The Brazilian company signed several contracts for the supply of iron pellets, as well as entering into ventures in partnership with Mendes Junior, one of Brazil’s leading construction firms.\textsuperscript{431} In the end, the oil deals with Venezuela blossomed into something broader, involving expanding trade in other products. The Venezuelan initiative was one of the few coherent oil policies implemented by the Figueiredo administration.

\textsuperscript{428} 19/01/1979. BRASEMB Caracas. Petroleo, compra de petroleo venezuelano. 663.63 (B35 (B46)p.1
17/01/1979. BRASEMB Caracas. Petroleo, compra de petroleo venezuelano. 663.63 (B35) B(46).pp.1-3
\textsuperscript{429} 10/x/1980. BRASEMB Caracas. Petroleo, aumento de fornecimento venezuelano ao Brasil. 663.63 (B35) (B46)pp.1-4
\textsuperscript{430} 19/01/1982. BRASEMB Mexico. Brasil/Mexico/ venezuela. complexo petrolifero. 663.60 (B14) ( B46)pp.1-2

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One of the reasons behind that success was the fact that the Brazilian-Venezuelan trade was complimentary, with Brazil needing oil and Venezuela needing Brazil’s commodities and manufactured goods for its booming economy. Brazilian refineries were ready to absorb Venezuela’s heavy crude and the Venezuelans were not squeezing Brazil in terms of pricing, like Iran, the USSR, and Ecuador. It was an oil deal that expanded trade between the two countries and promoted a regional alliance of relative importance. Venezuela had returned to the Brazilian oil scene on a permanent basis.

In the end the Great Oil Diplomacy would once again accomplish its goal of securing Brazil’s oil needs in a time of acute crisis. But, such a success came at a steep price for the nation. Although Brazil expanded its trade towards a more global profile through new oil deals, the benefits were offset by the high prices that had to be paid for oil from alternative suppliers. Brazil tried to maintain its policy of fixed contracts, but that proved to be challenging in a context where the spot market was prevailing, thus much higher prices were often applied. The 1979 Oil Shock revealed the first signs of the fracture between Petrobras and Itamaraty, where one was focused on better deals and the other on trade. Figueiredo’s lack of managerial skills and the competing objectives within his administration only made the oil scramble more confusing and costly. By 1981, the new administration thought the worst was already over, but domestic constraints added by unfortunate turns in international events would prove them wrong.

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432 The countries aforementioned were fixed their prices between US$34.50 and US$ 38.00, according to Brazilian sources. Iran still charged a US$ 4.00 premium, which put its barrel price to more than US$ 40.00. While Brazil’s agreements with Venezuela predicted prices close to US$ 32.00, albeit it was a heavier oil.
3.3 From Oil Shock to Debt Crisis - The Domestic Front

When the Second Oil Shock became a reality in Brazil, there was a sense of economic doom looming on the horizon. The press, the government and the people reacted almost instantly and a scenario of total chaos was the only one that could be contemplated. The economic crisis that hit Brazil during the 1980s had a great impact on the Brazilian fuel market. Petrobras refineries were working at only 60% of their full capacity, while consumption of fuel oil and natural gas were down by 40% from the 1980 peak.\(^{433}\)

However what remains curious is that barely anybody in Brazil saw the country’s economic fundamentals as weak. As IMF data from 1978 until 1983 demonstrated, the Brazilian economy was built upon weak foundations.\(^{434}\) Brazil was running on dangerously high balance of payments deficits, pushed by imports of advanced manufactured goods and foreign oil. Figueiredo, like his predecessors, sought to avoid making hard decisions. Inflation was climbing higher, interest rates were also going up, saving and investment levels were low, and the foreign debt was becoming unsustainable, close to US$ 80 billion, which was still rising due to the increase in interest rates after the Volcker Shock. In that sense, the fall in global oil prices after 1983 and the improvement in the position of the balance of payments after 1982 did not have a direct effect in diminishing the foreign debt.\(^{435}\)

\(^{434}\) International Monetary Fund. (1983) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1983 Article XIV consultation. SM//124,pp.17-27.
\(^{435}\) Deficit from the Brazilian balance of payments reached US$ 13 billion in 1980. This trend would be reversed only after 1982, with the oil glut. Brazilian oil expenditures reached US$ 10 billion by 1981, marking the peak for the Second oil shock.
The dysfunctionality of the Figueiredo administration only meant that the situation would probably deteriorate further. The president was clearly shrouded from the realities of economic life, and he was increasingly growing tired of his finance minister, Mario Henrique Simonsen. The minister, arguably an economic genius, soon realized that Brazil had to quickly change its ways. The federal administration had to be streamlined and waste from public companies had to be brought under control. The fundamentals of the economy, such as inflation and interest rates, had to be in order so that the country could benefit from higher efficiency gains. Yet Figueiredo considered advice to this effect to be “pessimistic” and wanted someone who could offer him a more optimistic projection of the future. That person was already in the cabinet: the Minister of Agriculture, Delfim Netto.

It was only a matter of time before Delfim’s return as the Salvador da Patria (nation’s savior). Besides being a sharp economic mind, he knew how to play the political game like few others. In the end, the obvious move was to fire the orthodox Simonsen so that the hopeful Delfim could become the new Czar of the Brazilian economy.436 Despite his ability to sell the impossible to the public, Delfim understood that the situation was quite complex. First, the government planning for the 1979 Oil Shock failed to account for the fact that the country would be brought to a halt by increased oil prices. Major investments in hydropower and alcohol during the 1970s helped to offset some oil demand.437 The continuation of the National Oil Council’s policy of increasing gasoline prices consistently in order to control demand was working quite well, despite the burden the Brazilian people had to endure.

436 “O ministerio pega fogo”. Veja, August 15th 1979. Veja was used here to provide further detail in the inner workings of palatial intrigue during the Figueiredo’s term in office.
The Figueiredo administration had inherited more than twenty ambitious projects from Geisel in the energy arena, with a steep price tag of $24 billion. The new president kept all of these ambitious and costly projects. The concentrated presence of people connected to the energy industry in his cabinet, such as Cesar Cals and Aureliano Chaves, meant that energy as a whole was a high priority for his government. By the end of his administration, Figueiredo was investing more on energy policies than he was on education and healthcare combined. Some of these initiatives, such as the sugar cane alcohol program (Proalcool) generated a pioneering and relatively successful new energy matrix for the country. By 1979, the first alcohol-powered cars were being manufactured in Brazil, and they became an instant success due to the high gasoline prices practiced of the time.

Some other infrastructural energy projects were nothing more than a costly fiasco, such as the Brazilian Nuclear Program. These projects vastly exceeded its planned budget and failed to provide the economic response from which was expected. These white elephants, regardless of their results, were built with foreign credit, acquired mainly in the Eurodollar market at floating interest rates. The party seemed to be endless, and there was plenty of credit from the petrodollars that were recycled in the American and European banks, where given the global inflationary surge of the late 1970s, Brazil was actually borrowing at negative interest rates. Such a wel-

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coming borrowing environment made the Brazilian government complacent with its increasing foreign debt, where the prevailing mood was that these loans were expected to meet the demands of the economic development of the nation.

The IMF reports about the Brazilian economy during the early 1980s are very clear on the role of the state companies in Brazil’s foreign debt. According to the IMF, by 1985 the foreign debt of the Brazilian state companies was worth 8% of GDP, while the overall foreign debt stood at 25% of GDP. The fact that the state companies alone were responsible for almost one third of Brazil’s debt it is quite impressive, and also indicative of the costly price tag of the military junta’s dreams of economic nationalism. Unfortunately, there was no specific data on Petrobras borrowing in the IMF’s reports, but considering the company’s size and importance among the universe of state companies, it is possible to infer that its role was substantial.442

By 1979, the economic model based on foreign borrowing, foreign oil and heavy state investment would start to face its final downfall. On top of the demands imposed by the oil at $35 per barrel, the new Chairman of the Federal Reserve, Paul Volcker, in October 1979, initiated a new policy of increasing American interest rates steeply, which directly affected the costs of Brazilian borrowing. Although, the Brazilian economy posted a respectable growth in GDP in 1979 and 1980, Delfim was planning several changes in order to address public spending, foreign borrowing and high inflation.443 At Christmas in 1979 Delfim announced a series of im-

442 International Monetary Fund. (1981) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1981 Article XIV consultation. SM/124, pp.11-38.
International Monetary Fund. (1983) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1983 Article XIV consultation. SM/124, pp.17-27.
443 25 million people migrated from the countryside to the urban environment from 1950 until 1980.
portant measures designed to bring stability to the Brazilian economy. Cuts in fuel oil consumption for industries were imposed, and a range of subsidies provided to different industries were cut. The Figueiredo administration also created a new official position named the State Companies Comptroller (SEST), whose task was to keep federal expenditures under control.

For the average Brazilian average citizen, life was becoming more troubling and incomprehensible, as arcane economic jargon invaded everyone’s lives. The public spirit could be summarized by Lima Duarte, a famous soap opera actor, when he said of Delfim’s Christmas plan: I didn’t understand half of what he said, and from the other half it seems we are in real trouble.\textsuperscript{444} The sense of security and prosperity from the Medici years were now long gone. Brazil was facing the full consequences of its rural exodus, which gave birth to one of the greatest urban sprawls of the 20th century. The direct consequence was the rise of massive favelas not only in Rio de Janeiro, but also in other major cities.\textsuperscript{445} By 1980, urban violence started to explode and the first drug wars fueled by police corruption started to take place.\textsuperscript{446} The only solace for Brazilians seemed to be the process of political opening which was moving forward after full amnesty had been conceded for both the military and opposition in 1979. Democracy seemed to be the only hope, the silver bullet for the Brazilian malaise.


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One of the greatest paradoxes of the Figueiredo administration was the fact that despite the country’s economic struggles, Petrobras was thriving. Under the guidance of an experienced helmsman in Shigeaki Ueki, between 1979 and 1985 the company would achieve goals that ten years before were unthinkable. The company would not be immune to what was happening in the rest of the country. The greatest gain of Petrobras came in the Campos basin, which was being explored, with full force. After more than US$ 5 billion in investments in research, exploration and international cooperation, Campos output would double between 1980 and 1985 from 265,000 bpd to 500,000 bpd.\footnote{Petróleo Brasileiro, S.A. 1980. Boletim técnico da Petrobrás. pp. 7-22. Republica Federativa do Brasil. Ministerio das Minas e Energia. 1983. Boletim Energetico Nacional,pp.5-17. Republica Federativa do Brasil. Ministerio das Minas e Energia. 1985. Boletim Energetico Nacional,pp.4-25. Petrobras S.A. (1986). Relatorio Anual 1985,pp.3-7.}

The increase in output represented a huge relief for the Brazilian oil account as the country could finally spend less dollar reserves when acquiring foreign oil. Unfortunately, the macro-economic chaos generated by the debt crisis did not allow the country to fully benefit from this as much as it should have. By the early 1980s, Petrobras was investing an average of more than US$ 1 billion per year on production and exploration, a sum that would double by 1985.\footnote{Petróleo Brasileiro, S.A. 1980. Boletim técnico da Petrobrás. pp. 3-14. Petrobras S.A. (1986). Relatorio Anual 1985. pp. 5-17.} The exploration of the Namorado and Cherne offshore fields became cornerstones of Petrobras’ strategy during the early 1980s. In its research center at Fundão Island, Petrobras was developing even more complex technologies for deepwater platforms (wet Christmas trees) and drilling sys-
tems. The Brazilian company, working in tandem with foreign giants in the oil service sector such as Schlumberger, was able to become the world’s leader in deepwater exploration.

Despite the major economic difficulties faced by Brazil during the 1980s, Petrobras entered into a virtuous cycle of important scientific advances attached to the findings of the giant offshore fields of Marlim and Albacoara in the Campos Basin. As pointed out by Tyler Priest and Jose de Morais, those vital findings did not happen by chance; they were the result of the efficient work done by the CENPES laboratory and increasing cooperation with foreign service suppliers.

As described in previous chapters, Petrobras had been conducting the intense work of analyzing the seismic lines of the Brazilian continental shelf since the late 1960s. Over time, cumulative knowledge about the continental shelf allowed Petrobras to find larger fields at deeper depths. But these extremely promising fields brought with them immense technological challenges, which the Brazilian company had to handle. The use of the “bright spot” technology of assessing seismic lines in order to find hydrocarbons was one of the main tools that allowed Petrobras to achieve better results in finding new oil fields.

The 1980s also marked important changes related to the offshore platform, which made exploration at greater depths possible. Wet Christmas trees, subsea wells, remote operated vehicles (ROVs) and manifolds were at the core of the new frontier in deep offshore oil exploration.

451 Idem.
during the 1980s. Petrobras had been using wet Christmas trees since 1979 in the Enchova Field, which resulted in increased output and was also important to the success of the Early Production System (SPI). The manifold, which essentially is a pipe fitting with several side outlets to connect it with other pipes, was developed first by Lockheed for Petrobras in 1979.\footnote{Idem.}

That early cooperation with Lockheed during the 1970s allowed CENPES, in partnership with other Brazilian universities, to develop more complex manifolds that would become vital for the platforms used at the Roncador and Jubarte fields after 1996. Given the fact that Petrobras was already conducting oil exploration at 1000m water depths, the use of divers in order to perform more dangerous tasks on a platform was no longer viable. However the 1980s brought the rise of the computer age, and with that the use of ROVs to perform deep water tasks, especially visual inspections of the subaquaic infrastructure. CENPES lab tried at first to develop Brazilian ROVs in order to save precious dollar reserves, since the rent of a ROV was quite expensive to Petrobras. But, the Brazilian models were less than satisfactory, causing Petrobras to make full use of foreign ROVs, since expansion of exploration was the priority.\footnote{Idem}

Lower temperatures and high pressure at greater water depths became a huge challenge to oil exploration in the Campos Basin. The use of paraffin inside the deep-water pipelines meant that the oil ended up freezing while moving up to the platform; only by the early 1990s had the company conceived of more sophisticated technologies that solved the problems caused by frozen crude clogging the pipelines. Petrobras engineer Cesar del Vecchio, in partnership with the University of Reading, developed new polyester synthetic cables. These new cables allowed
Petrobras to anchor its platforms safely in deep waters. The cables were produced by the companies Marlow Ropes (UK) and Quintas & Quintas cordoaria e redes (Portugal).\textsuperscript{454}

This impressive technological advancement during one of the worst financial crises in Petrobras history demonstrated the resilience of the company’s technical core. But this situation created a conundrum that could have been analyzed more by Tyler Priest and Jose de Morais, since technical and financial aspects are interconnected in an intensive capital industry such as oil. Despite its technological prowess, Petrobras did not have the resources to fully develop the new giant fields, which stalled Brazil’s domestic oil output growth until the mid-1990s. Moreover, the domestic demand for oil derivates was rather idle during the 1980s, with a short-lived exception at the beginning of the Cruzado Plan in 1986. In order to thrive at its full capacity, Petrobras needed the federal government to reorganize the macroeconomic scenario.

With that, domestic demand for oil derivates could increase once again, giving back to Petrobras a vital source of income. On top of that, a stable macroeconomic environment was essential for Petrobras to have access to the foreign credit market, so costly projects could move ahead. In summary, capable scientists and engineers are crucial to any oil company, as demonstrated by Tyler Priest and Jose de Morais. However, as the Petrobras story during the 1980s demonstrated, they cannot fulfill their potential without adequate financial support.

Another positive factor that allowed Petrobras to thrive was the degree to which the Brazilian company could learn from the exploration techniques used by foreign Majors working in the risk contracts conceded by the Brazilian government since 1976. If, the results were not so good for the Majors, for Petrobras it represented a huge opportunity to learn the organizational

\textsuperscript{454} Idem.
skills from the very best in the oil sector. According to Ueki, the presence of the foreign oil companies that explored oil in Brazil helped Petrobras to enjoy overall productivity gains in the order of 30% between 1976 and 1985. When the oil market was partially opened by then president Geisel and Ueki in 1976, pessimists expected Petrobras to struggle, but in the end this development helped the company to prosper. Cooperation and mild competition with the foreign companies saw Brazil’s domestic oil output to increase 5 fold between 1976 and 1985. This was significant evidence that when allowed to compete Brazilian companies could return the efficiency gains that the economy so badly needed. But neither the military nor the economic team were ready for such a bold idea, their mindset was still too attached to the idea of an enlightened autarky.

In several ways, Shigeaki Ueki was successful in isolating the technical core of Petrobras from constant palatial intrigue and meddling from Brasilia. However, by 1981 that was not possible anymore. After posting positive GDP growth numbers for 1979 and 1980, in 1981 the economy nosedived, with a GDP decrease of 3%. The recession grew even worse and Brazil could not rely on foreign markets that were similarly facing acute recessions in the early 1980s to export its way out of the crisis. The global recession caused by the harsh medicine of tight money and high interest rates imposed by the Federal Reserve chairman Paul Volcker in the

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United States ultimately created an impossible situation for Latin America’s foreign debt. One point increase in the LIBOR interest rate meant an increase of US$ 500 million in Brazil’s foreign debt. Brazil’s foreign debt by 1986 represented 376% of that year’s exports. With rising LIBOR interest rates, it became quite clear that Brazil’s collapse was only a matter of time.\footnote{The London Interbank Offered Rate is the average of interest rates estimated by each of the leading banks in London that it would be charged were it to borrow from other banks. It is the primary benchmark, along with the Euribor, for short-term interest rates around the world.}

Mexico was the first to fold, and by early 1982 the country had to officially apply to the IMF for a rescue package. The financial markets’ bet was that Brazil would be the next domino to fall, and they were right. In an event that became known in Brazil as “Black October,” the country had its access to several international financial operations and credit completely cut or frozen.\footnote{Babb, Sarah L. 2009. Behind the development banks Washington politics, world poverty, and the wealth of nations. Chicago: University of Chicago Press.pp.70-99} The Brazilian government was already aware that such an outcome was very likely by early 1982.

With that in mind, the Figueiredo administration ordered all state companies to sink themselves into debt in order to help the federal government balance its own budget. The Trade Minister, Camilo Penna, later said to the Congressional Inquiry Committee: “it was only supposed to be a harmless little borrowing.”\footnote{Senado Federal. Da Comissao Parlamentar Mista de Inquerito, encarregada de investigar a atual crise financeira no Petroleo Brasileiro S.A.- Petrobras, assim como possíveis irregularidades administrativas. Relatório N 14 , 1990. Brasilia. pp. 2-58} The so-called “jumbo loans” were contracted with the world’s leading financial institutions and organized in syndicates together with smaller lenders. Even with the knowledge that Brazil was facing a perilous situation by the late 1970s, Chase
Manhattan, Bank of America, Hannover’s Manufacturer, and Deutsche Bank did not deny Brazil and Petrobras a last kiss of death.\textsuperscript{462}

The audit of Petrobras conducted by Price Waterhouse and Ernst and Young during the late 1980s clearly demonstrated the disastrous consequences of Figueiredo’s policies. By the peak of the Debt Crisis Petrobras owed foreign lenders a sum of US $5 billion, around 8\% of the full Brazilian debt as recognized by the federal government.\textsuperscript{463} SEST reports leaked to \textit{Veja} magazine showed that Petrobras was the largest Brazilian debtor abroad and six Petrobras subsidiaries were among the ten largest “budget offenders.”\textsuperscript{464} The \textit{Veja} story launched what was perhaps the first major public outcry for transparency within the oil company.

A public struggling with massive layoffs and crippling inflation found little consolation in these revelations. The benefits received by Petrobras workers, such as costly healthcare insurance and biannual bonuses outraged public opinion, liberated by the first taste of free speech in twenty years under the guise of \textit{Abertura}. A book called \textit{The Mandarins of the Republic} became an instant best seller in Brazil. Written by the journalist Jose Carlos de Assis, it promised to tell the audience about the life of perks and waste within state companies. It described in details how Interbras, a Petrobras subsidiary and one of the largest offenders of the federal budget, agreed to several bad trade deals in Nigeria and how its shipment and marketing strategies were complete-
ly flawed, affecting the company’s profitability. Assis treated Interbras as the epitome of mediocrity and the embodiment of the “Petrobras malaise.”

The polemical book, attached to several stories in the Brazilian press about Petrobras’ short working hours, the use of personal masseuses at its headquarters and the severe public criticism imposed by some of the company’s old foes, such as Roberto Campos and Eugenio Gudin, obliged the company to react strongly. The counterattack took the form of a grand advertising campaign by the company, stressing old values such as patriotism and hard work, emphasizing how they were a part of the Petrobras ethos. One of its main executives, Carlos Sant’Anna, wrote a book sponsored by Petrobras in order to defend Interbras, its trading subsidiary. Sant’Anna argued that Interbras served Brazil by expanding the markets for its products in several countries across the globe. He also argued that the stories of rotting products sold abroad and dysfunctional shipping lanes were a lie by Assis, whose only intent was to make money for himself by demonizing the oil company.

Despite an eloquent defense by Sant’Anna of Interbras and the company as a whole, he would later contradict himself in his testimony to CPDOC’s oral history project. In 1988, Sant’Anna claimed that Ueki ruined Interbras, transforming it into a company that traded everything, one that lacked focus on its core business. He also lambasted President Figueiredo for freezing gas prices during the Debt Crisis. According to Sant’Anna, Petrobras losses over the period were great and seriously compromised the company’s ability to invest in oil exploration

466 O Buraco sem fundo. Veja, December 23rd, 1981; “A nova ortodoxia”. Veja, December 24th, 1979. Veja was used here to demonstrate how the Debt Crisis and the hyperinflation that followed affected Brazilian state companies.
Petrobras had become too big; with its more than fifty subsidiaries by 1980 it was the largest Brazilian company. Several of those subsidiaries were related to businesses that had nothing to do with oil, such as Interbras and Petromisa (mining).

Although it must be recognized that the some of the accusations made in Assis’ book may have been overhyped, Interbras activities and accounting were indeed a mystery. The SEST reports published between 1981 and 1984 raise more questions than answers. It seems curious that such a small fraction of Petrobras’ work force of 60,000 could play such an important role within the company. Some of its subsidiaries like Interbras Cayman only employed about 50 workers but had the same number of directors as larger subsidiaries such as Petroquisa (refining).

The lack of transparency in deals that involved Interbras in renowned tax heavens like the Grand Cayman’s was worrying, to say the least. Interbras had other offices in New York, Paris, and Rome. Stories of astronomical salaries and perks, plus the rent of elite real estate in those venues ruined Interbras’ public image but it also posed a larger question. Why did Petrobras need a trading subsidiary in first place? The Interbras experiment was the best proof that despite the fact that Petrobras had found success in oil exploration, the company as a whole was struggling with a lack of clear goals. Heavy corporate debt, frozen fuel prices, and a fall in domestic demand were the consequences of the Debt Crisis. A gargantuan, unfocused, and financially weakened Petrobras would limp through the 1980s and early-1990s. It would necessarily require more

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469 “Alta privilegiatura.” Veja, April 13th, 1983. Veja was used here to demonstrate how the Debt Crisis and the hyperinflation that followed affected Brazilian state companies.
than courage to kill the Hydra; it would need political skills and the right circumstances. The 1980s would offer neither of these.

3.4 Oil and the Transition to Democracy

By the middle of the 1980s, Brazil had been chastened by the economic meltdown that followed the 1982 Debt Crisis. The Reagan administration, worried about the exposure of US banks to the Brazilian debt, acted in tandem with the IMF to restore some resemblance of solvency to the Brazilian economy. As was common the IMF’s terms required several pro market reforms and cuts to the federal budget. Most of the analysis concerning period tends to focus on the IMF reforms but usually forgets about the actual content of the IMF reports and the diagnostics that preceded them and above all what they meant to the oil market in Brazil and Petrobras.

The names of IMF analysts like Ana Jul and Horst Stuckmeyer were elevated to celebrity status in Brazil during the 1980s as they undertook the difficult task of mediating between Figueiredo and the IMF executive board. For the once proud military elite, the IMF technical missions were the ultimate humiliation. Often very sensitive to any sign of foreign intervention, Brazilians from all political sectors reacted angrily. In essence, the IMF was demanding reforms that would have to be implemented sooner or later, but Brazilians were not focused on the rationality of the reforms and the sense of a violation of national sovereignty was stronger. The IMF’s annual reports from 1983 through to 1990 point repeatedly to the need to control inflation, reduce the size of the Brazilian state and restore balance to the fundamentals of the econo-
Hyperinflation and foreign debt were the result of policies that had started with General Costa e Silva and continued through to Geisel. When Figueiredo started his term, it was simply too late and he was not a sufficiently skilled manager to avoid the complete wreckage of the Brazilian economy. The old Brazilian penchant for excessive state expenditures, attached to structural problems that affected workers’ output such as illiteracy and malnutrition, added to the heavy tax burden and bloated bureaucracy that were the underlying causes of the problem.

The IMF reports recognized that while the so-called “Volcker Shock” and both Oil Shocks (1973 and 1979) ultimately brought the Brazilian economy to its knees, these were not the structural causes of the problems. Since 1972, IMF advisors had been warning the Brazilian government that something had to be done about the level of borrowing and the nefarious effects that inflation and indexation had upon people’s lives. Ultimately, nothing had been done to address those crucial issues.

The main problem was that the Brazilian government lived in denial about the underlying causes of the Brazilian malaise, and it was easier to blame OPEC or the IMF, than to admit to its own guilt. On top of that, since the greatest engine of inflation was the federal government itself,

\[^{470}\text{International Monetary Fund. (1983) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1983. Article XIV consultation. SM/ 74/124. p.35}\]

\[^{470}\text{International Monetary Fund. (1985) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1985 Article XIV consultation. SM/ 74/124. p.29}\]

\[^{470}\text{International Monetary Fund. (1989) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1989 Article XIV consultation. SM/ 74/124. p.47}\]

\[^{470}\text{International Monetary Fund. (1991) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1991 Article XIV consultation. SM/ 74/124. pp.25-41.}\]

inflation essentially represented an unofficial tax on the poor to cover for the government’s lack of financial restraint. While poor Brazilians had to clog the supermarket aisles right after their paychecks arrived in in order to avoid increasingly inflated prices, the elites were financially secured. Financial oddities such as the “overnight” or the “correção monetária” protected incomes above a certain threshold. Perversely hyperinflation became a huge opportunity to make more money without clear efficiency gains.

At the end of Figueiredo’s administration Petrobras was struggling under the weight of all of the economic imbalances that the country faced. The heavy debt held by the company affected several areas, especially security, exploration, and maintenance. That lack of resources was behind the company’s two major accidents of the 1980s: the fire of Vila Soco and the explosion at the Enchova offshore platform. Vila Soco was a favela close to Sao Paulo, where shacks were built on top of a Petrobras pipeline, a true testimony to Brazil’s lack of urban planning. A gas leak into one of the rarely serviced pipelines caused a fire that literally burned the favela to the ground. Petrobras and the State of Sao Paulo only recognized 100 dead, but the populace pointed out that there were 2,000 people living in Vila Soco, and they contended that around 1,000 were either dead or missing The final report by the Sao Paulo state government was inconclusive and squatters were blamed for their lack of care, not Petrobras.

471 The overnight market is the component of the money market involving the shortest term loan. Lenders agree to lend borrowers funds only "overnight" i.e. the borrower must repay the borrowed funds plus interest at the start of business the next day. Given the short period of the loan, the interest rate charged in the overnight market, known as the overnight rate is, generally speaking, the lowest rate at which banks lend money. Indexation has been very important in high-inflation environments, and was known as monetary correction "correção monetária" in Brazil from 1964 to 1994. Some countries have cut back significantly in the use of indexation and cost-of-living escalation clauses, first by applying only partial protection for price increases and eventually eliminating such protection altogether when inflation is brought down to single digits.

In 1984, Enchova platform was one of the largest and more profitable in the Petrobras fleet. One night in August, the drill reached a compressed gas chamber under the seabed and suddenly all of the measures designed to contain the gas beneath it failed. Several explosions followed and the ensuing fire forced the complete evacuation of the platform. During the rushed evacuation, one overcrowded life raft capsized, killing most of its crew.\textsuperscript{473} The accident shocked Brazilian public opinion and Petrobras once again was the subject of severe criticism.\textsuperscript{474}

Joel Renno, one of Petrobras’ senior executives had to come out in public and candidly admit that evacuation drills had not been carried out for over a year and that there were certainly security issues that had to be reviewed.\textsuperscript{475} The events in Vila Soco and Enchova demonstrated some of the issues that affected Petrobras’ financial problems, its financial issues having obliged the company to focus its investments into production and research at the expense of other vital areas. These incidents sapped the company’s morale and damaged its public image, diminishing Brazilians’ support for their own oil company.

In this environment of gloom and doom, Shigeaki Ueki left the Petrobras presidency in August 1984, at the sunset of the Figueiredo administration. Tired with the government meddling and the frequent infighting with Energy Minister Cals and the vice-president Chaves, Ueki preferred to pursue a career in the private sector. His exit would mean the end of an era of expansion and renewal for Petrobras that had started in 1969, when Geisel became Petrobras’ president.

\textsuperscript{473} “Terror em alto mar.” Veja, August 22nd, 1984. Veja was used here to demonstrate how the Debt Crisis and the hyperinflation that followed affected Brazilian state companies, especially safety and maintenance in Petrobras.
\textsuperscript{474} “Tragico rescaldo.” Veja, April 4th, 1984. Veja was used here to demonstrate how the Debt Crisis and the hyperinflation that followed affected Brazilian state companies, especially safety and maintenance in Petrobras.
\textsuperscript{475} Idem.
\textsuperscript{476} Idem.
Despite the waste and focus on non-core businesses, Ueki had certainly presided over the company’s most successful period.

The company now had a global reach; it had strong exploration, refining, and transportation activities in almost every continent. But above all, it had achieved recognition from other leading companies, with whom Petrobras had partnered in series international joint-ventures. However, from 1985 until 1991 Petrobras would be struck by the complete implosion of the Brazilian economy, starting the worst period in the company’s history.

In March 1985, the military transferred power back to civilian rule. The military conducted the process the way they wanted with the new president chosen in an indirect election by the Congress. The chosen candidate, Tancredo Neves, was agreeable to Figueiredo and other top military figures with his pragmatic and centrist approach. Despite the fact that Tancredo was from the opposition party (PMDB), the fact that he was not a leftist firebrand, such as Leonel Brizola and Luis Inacio Lula da Silva, was enough to guarantee a peaceful transition.\textsuperscript{476} The military had also received a legal guarantee through the Amnesty Act signed by Figueiredo that they would not be arrested or persecuted for any of the crimes they may have committed during their time in office.

The country that Figueiredo left behind was a shadow of that envisioned in the military’s ambitious plans from 1964. By 1985, inflation was completely out of control and the country had lost all trust from foreign creditors and the IMF. On top of all that, the state of denial in Brazilian society limited the kinds of solutions that could be conceived of to address the impending crisis.

ing troubles. It became a familiar trope of the mid 1980s that democracy would only be enough to restore stability, prosperity, and good governance. Although, the excitement for democracy can be understood within the historical context of the time, democracy itself would require a lot of work and time to heal itself from the vices of the political system left behind by the military.

It became clear that the new Neves administration would have to accept several politicians that were connected with the military regime, so that a resemblance of continuity could be guaranteed. Nothing embodied that need and the established Brazilian tradition of seeking consensus more than the choice of Jose Sarney as Neves’ vice-president. Sarney, a powerful politician from Maranhao, had built his political career supporting the military junta.

This alliance made Sarney the military’s man in Maranhao and his loyalty had been rewarded with a meteoric rise within the ranks of ARENA, the military’s own party. After serving as congressman and senator for more than a decade, Sarney saw an opportunity to change sides and became Brazil’s vice-president. Neves also understood that having Sarney on his ticket guaranteed the military’s seal of approval for a fast transition. It was a deal that worked for both parties. 477

The Brazilian economy suffered from an acute disease that Delfim and his successors failed either to grasp or to address. For the Developmentalist camp represented by a wide spectrum of figures including Joao Paulo dos Reis Velloso, Luis Carlos Bresser-Pereira and Maria da Conceicao Tavares, the fundamentals of the economy were strong. Despite their differing politi-

477 Idem.
cal views, they argued that inflation did not stem from government expenditures, but was rather a behavioral issue derived from the elite’s greed, this concept being named “Inertial Inflation.”

Delfim took pride in the fact that Brazil’s exports were strong and that imports were at an all time low, consolidating Brazil’s position as one of the most protectionist capitalist economies in the world. Those who demanded a return to more orthodox economic practices, such as Roberto Campos, Mario Henrique Simonsen, and Eugenio Gudin, were completely dismissed as “rightists” and “sons of the dictatorship.” For the new Brazilian political elite, it was not Developmentalism that failed but rather the military’s inability to implement the model in the right way that was the cause of the country’s problems. They believed that in their hands they could get it right.

The scenario in the oil industry had changed completely in the 1980s, when suddenly an oil glut caused the crude price to fall steeply between 1981 and 1990. According to Daniel Yergin and Pierre Terzian, the oil glut was caused by a combination of a severe recession in the early 1980s, an increase in output from non-OPEC producers, and more effective energy conver-

479 International Monetary Fund. (1985) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1985 Article XIV consultation. SM/ 74/124.p.27
sation technology and policies. Such an outcome represented a severe blow to OPEC producers and to the oil companies, who saw an end to more prosperous times.\textsuperscript{482}

As oil prices started to fall, the OPEC’s attempts to have complete price control started to crumble as its market share fell towards non-OPEC producers. It became a regular feature to cheat on OPEC quotas, and soon the market was awash with cheap oil. This situation was especially harmful to developing countries such as Nigeria and Venezuela, which had conducted excessively ambitious domestic policies based on increased oil windfalls. Suddenly, Nigeria and Venezuela saw themselves sunk into debt and threatened by political instability. Development projects in Arab producers also saw major cuts during the 1980s, and those countries had to deal with the extra burden due to defense expenditures related the political instability brought by the Iran-Iraq war.\textsuperscript{483}

Lower oil prices were great news to consumers in the developed nations, and certainly it was one fact behind higher GDP growth rates during the second half of the 1980s. But, for the oil companies of those countries, represented a time of cost cutting and more modest exploration projects. In that sense, Petrobras was not only affected by a troubled domestic scenario, but also by the “glut age”, which affected the company’s ability to expand its exploration activities in Brazil due to lack of financial resources.

Meanwhile, Brazil’s energy policies were too broad. By 1980, a memorandum presented to the Figueiredo administration made by Itamaraty and the National Information Service (SNI)


predicted that there would be an oil glut by the mid-1980s.\textsuperscript{484} This prediction became a reality by the end of 1982, when the average price paid by Petrobras for foreign oil decreased by more than 30\% from its benchmark value of US$ 32.00 in 1980. This information did not compel Figueiredo to refrain from his ambitious expansion plans in the realm of energy and expenditures were increased in the end, but the positive scenario expected after the oil glut did not materialize and Petrobras and the country as a whole were left struggling under the burden of the economic crisis.

Burdened by heavy foreign debt and having to deal with a difficult political transition, it is hard to give a clear definition of Jose Sarney’s energy policy. Despite the strong reputation of the minister, Aureliano Chaves, the lack of resources impeded any ambitious plans in the same way that happened during military rule. Brazil now faced a different kind of problem as the country had a surplus of energy output, especially hydropower. The deep recession of the early 1980s and the economic chaos caused by the hyperinflation that followed the recession resulted in weak demand for electricity on the part of industry and households.\textsuperscript{485}

The second half of the 1980s was also marked by the downfall of the alcohol industry. As the federal government’s budget became overburdened by its commitments to the IMF and the state bureaucracy, subsidies for the alcohol industry simply evaporated. The end of the subsidies attached to lower gasoline prices following the oil glut drove consumers away from alcohol, a trend that was enhanced by the collapse of the alcohol supply in 1989. The immense economic troubles faced by Brazil during the 1980s compromised the grand design for the energy sector

\textsuperscript{484} 21/12/1979- BRASEMB Washington. Energia, Petroleo, OPEP, Reuniao de Caracas. 663.63 (00) pp.1-3
05/04/1980. Memorandum para o Secretario geral. Plano nacional de informaçoes. 663.63 (00)pp.-.1-12
conceived of by the military junta. Only after 1994, with the stabilization brought by the Real Plan, would the energy sector reorganize and expand once again.

By 1985, Brazil’s oil output was covering more than half of its needs, but at a huge cost.\[^{486}\] Taxes represented about 40% of the fuel price in Brazil, and were a sure source of revenue that the government was not willing to abandon.\[^{487}\] The large Proalcool project, despite its success in creating a new energy matrix for the country, was costly for Petrobras. The company was responsible for its storage and nationwide distribution, the subsidies provide for alcohol fuel production (its real cost was US$ 31.00/barrel) affected Petrobras gasoline sales and created idle capacity in its refineries. Petrobras executives believed an 80% price increase was necessary to balance the company’s financial situation, but the government was not willing to concede that, since it would foster inflation.\[^{488}\]

The new civilian administration had difficult choices to make, and most of them had to involve cuts to bureaucratic programs and political favors. The Brazilian state needed to be reorganized and the macroeconomic scenario had to return to a resemblance of stability. All of these plans, hopes and ideals were washed away when president Tancredo Neves died in April 1985 of a cardiac condition made worse by an infection contracted at the hospital. The nascent New Republic had been cursed right at its birth by one of Brazil’s greatest public tragedies, since so

\[^{486}\] In 1984 Brazil reached the coveted 500,000 bpd of domestic output. By 1986 Petrobras had overtaken YPF for the first time, and reached 625,000 bpd. Most came from the Campos basin.


much was expected of Neves. The coveted presidency fell to Jose Sarney, the ultimate insider of the dictatorship.

3.5 The Plano Cruzado and the Promise of the Sarney administration

Jose Sarney inherited an impossible task from the military junta. The country’s social fabric seemed to be disintegrating under the burden of an inefficient and giant state that was leading to income concentration, hyperinflation, and lower standards of living. An interesting portrait of Brazil at that time came from a government report composed by the Joint Chiefs of Staff and leaked to the press immediately after Sarney’s inauguration. By 1985 around 60% of the Brazilian population was living below the poverty line, with around 30% suffering from health issues resulting from malnutrition. For all intents and purposes, the report considered these people as already “lost” as far at it pertained to any future productive economic activity.489 The average caloric intake in the Brazilian northeast was around 1600 cal/day, well below the bare minimum of a 2000 cal/day diet established by the World Health Organization.490

Life was only slightly better for those living on the wealthy southern coast, where decreasing incomes and all manner of modern urban tragedies came to affect them. By the mid-1980s, Brazilian cities like Sao Paulo were overcrowded and pollution produced by the military’s industrial push made life unhealthy while high taxes created distortions in Brazil’s medicine

market.\textsuperscript{491} This combination of factors was squeezing the middle class, creating a sense of desperation that made some emigrate to the United States, Western Europe, or Japan, marking the beginning of the Brazilian global diaspora. If all of these troubles were not enough, Brazil’s population would grow from 130 million in 1980 to more than 200 million at the dawn of the 21st century meaning a much improved macroeconomic environment had to be created in order to accommodate a huge influx of new workers by the year 2000.

In order to start the process of reorganizing post-dictatorship Brazil, Sarney had inherited a cabinet that was not his, and had to deal with a rebellious Congress. In the early days of the so-called “New Republic” it became evident how much of the old Republic still remained. Sarney immediately demonstrated an unwillingness to follow either the IMF’s agenda backed by the Reagan administration or Conservative Brazilian politicians like Roberto Campos. One of Sarney’s first measures was actually to isolate then fire the Finance Minister handpicked by Neves, Mr. Francisco Dornelles. Sarney preferred the Developmentalist approach favored by the Planning Minister Joao Sayad, a firm believer in the idea of “inertial inflation”.\textsuperscript{492}

Sarney called upon Dilson Funaro as a replacement for Dornelles, a successful businessman with no previous history in public office. Funaro and Sayad were responsible for developing a bold new economic plan, which they considered to be a “heterodox shock”. It was supposed to strike a blow to inflation, with the introduction of a new valued currency (Cruzado) and across the board price freezes. Sarney’s team believed, like all Developmentalists, that the core behavioral issue of the problem was being attacked. Funaro and Sayad promised it would be fast, pain-

\textsuperscript{491} Idem.
less and effective. This was what exactly what the President wanted to hear, and right in time for the 1986 regional elections, where his party (PMDB) was not expected to perform well after his dismal performance in 1985.

In March 1986, the Cruzado Plan was put in motion and immediately changed the lives of more than a 100 million Brazilians with just one stroke of a pen in Brasilia. Suddenly, as the miracle promised by his economic team materialized, prices stabilized and the currency seemed strong. What followed for the next ten months was a boom in overall consumption of goods and with that, consumption of energy. Gasoline and alcohol consumption achieved levels unseen since the late 1970s, obliging Petrobras to go back to the foreign market and secure the necessary supply of foreign oil for Brazil, although less hastily than in in 1973 or 1979.

According to the Petrobras annuals, which contain auditing information conducted by Price Waterhouse, the exponential growth in fuel consumption, mainly diesel, gasoline, and alcohol during the second half of the 1980s, represented an increment for BR Distribuidora. At first, this was good for Petrobras, since much of its idle refining capacity was put back to work. The same logic also applied to the enormous energy supply built during Figueiredo’s tenure in office, especially the Itaipu Dam which was now finally being used for its original economic purpose, that of enabling the fast paced growth predicted and expected by the military in the late 1970s.

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493 “O Buque de boas novas.” Veja, April 9th, 1986. Veja was used here in oder tyo demonstrate the excitement that some sectors of the Brazilian public opinion felt about the new Cruzado Plan.
495 After the Cruzado plan in 1986, there was an increase of 120,000 bpd in oil consumption when compared to 1985 levels. Consumption of firewood and ethanol also soared during the Cruzado’s consumption boom.
Inflation suddenly seemed to be something belonging to a distant past, and Sarney was now the most popular man in the country. The president was gaining kudos from all political sectors and in civil society. In a televised debate on Rede Globo about the new plan, the Marxist economist Maria da Conceicao Tavares became tearful when she said: “this is the first serious economic plan I have seen in my entire lifetime.” The conservative Veja magazine similarly fell in love with the president’s plan. A new popular phenomenon had been created called Fiscais do Sarney (Sarney’s agents), where every citizen was responsible for protecting price stability. His immense popularity allowed huge political gains and in the 1986 state elections his party (PMDB) won in 22 out of 26 states, a commanding landslide that allowed for his government to control the political process behind the drafting of the new Constitution, scheduled for 1988.

The medium term chances of the Cruzado plan being successful hinged on one single factor that was briefly mentioned by the president during the announcement speech, state reform. The initial measures had to be complemented by a thorough reform of the federal government, otherwise the Cruzado Plan would amount to what Mario Henrique Simonsen called “giving a patient anesthesia without performing the surgery.” Sarney, the ultimate political animal, clearly understood that the pursuit of such a contentious and comprehensive reform agenda

Source: Republica Federativa do Brasil. Ministerio das Minas e Energia. 1990. Boletim Energetico Nacional. 496 “Lancado o Cruzeiro.” Veja, March 12th, 1986. Veja was used here in order to demonstrate the excitement that some sectors of the Brazilian public opinion felt about the new Cruzado Plan.
497 “O Buque de boas novas.” Veja, April 9th, 1986. Veja was used here in order to demonstrate the excitement that some sectors of the Brazilian public opinion felt about the new Cruzado Plan.
499 “A opção pelo atraso.” October 14th, 1987. Veja is used here to demonstrate how suddenly the mood in Brazilian public opinion soured against President Sarney and his Cruzado Plan.
would bring a halt to his momentum. As such he ultimately decided that the plan should stay the way it was, provoking fury from some of the staff behind the Cruzado like Edmar Bacha and Persio Arida, who eventually left the economic team.\(^{500}\)

Sarney clearly wanted to avoid hard choices that would risk his popularity and disrupt the power and patronage networks demanded by the Brazilian political system. Ultimately, the extended price freezes imposed by the government brought almost complete chaos to the Brazilian economy and to Petrobras as well. In 1986 there was a complete breakdown of the entire industrial supply chain. Since the prices that were pested did not reflect the real costs of production, stocks were depleted and shortages of even basic features such as beef became common. In order to alleviate the situation, Interbras was ordered to find supplies of beef and cereals abroad.\(^{501}\) Very often, such operations took place at Petrobras’ own expense, since the government was clearly subsidizing the prices of these staples.

Theoretically, since consumption was high, Petrobras should have benefited from larger sales. BR was still the leader retailer in Brazil during the second half of the 1980s, with an average market share of 37.7% but the consumption boom turned out to become a huge burden for the company.\(^{502}\) The rational oil pricing policies implemented by Medici and Geisel had completely disappeared under Figueiredo. Frequent unofficial price freezes and the sheer scale of inflation that destroyed any clear price reference led to struggles at Petrobras. The company was

already dealing with the fact that Brazil was a pariah of the global financial markets, and they saw their vital access to foreign credit severely cut. This meant that vital development projects such as the giant offshore fields of Marlim and Albacora in the Campos Basin were postponed until 1990. On top of all that, Petrobras was still slowly servicing its US$ 5 billion debt contracted during the Figueiredo administration.  

The price freeze imposed by the Cruzado Plan could not have come at a worse moment as the company was still struggling for its financial survival. The price freezes meant that Petrobras could not charge the costs for the extra oil it had to import following the consumption boom of the Cruzado. The National Oil Council imposed a mandatory price of US$ 18 a barrel, while Petrobras was still paying around US$ 20.00 the barrel on the foreign markets. The company’s woes were aggravated by the fact that the Petrobras presidency became a hot seat as bad as the Finance Ministry with six different presidents over a span of five years. The men who were in charge of Petrobras during the Sarney administration tended to quickly realize that they either had to abide by the president’s orders or risk a very public fight in trying to do what was right for the company.

In its message to the shareholders in 1987, for the first time in history, a Petrobras president openly criticized the federal government’s policy of price freez

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504 Idem.
spected senior civil servant was “asked” to leave Petrobras shortly thereafter. 507 As price freezes were slowly reduced, the Cruzado Plan started to quickly crumble as inflation rose. The plan’s demise precipitated a corresponding fall in the public’s regard for Sarney’s. His administration would limp through until March 1990, leaving behind a path of complete economic chaos. He tried a repeat of the Cruzado Plan in 1987 with the Bresser Plan and in 1989 with the Summer Plan, with little success when it came to stabilizing the economy. Heterodox plans were followed by an inflationary surge that was worse than before. By 1989, Brazil’s monthly inflation stood at around 164% , one of the highest in the world.

Data from Petrobras between 1985 and 1990 reveals a dramatic slow down in terms of exploration and production, a trend that was also perceived in other oil companies during the 1980s. The number of exploratory wells decreased by 75% and the amount of the domestic output remained stable over that period, close to 650,000 bpd. 508 At the core of its business, Petrobras was not doing well despite efforts to keep things working smoothly. In spite of all of these problems the company was still able to keep the amount of investment in production and exploration between US$ 1.5 billion and 2.5 billion, while posting losses of US$ 1.4 billion in 1989. 509

At this troubled moment there were some bright spots in Petrobras development. One of them was the new public image that the company tried to convey, one more adapted to the times

507 “Uma resposta rapida.” Veja, May, 21st 1986. Veja was used here to demonstrate how Petrobras was facing a huge administrative/financial crisis during the late 1980s.
of the New Republic. Petrobras also demonstrated clear improvements in the environmental arena, which had never been a subject of too much importance during the dictatorship. A new division was created in the company (SESEMA) under the guise of which Petrobras started to perform a series of environmental actions. Among the most important of these was the huge recovery project of the Cubatao area, site of the President Bernardes Refinery. For decades the local population had struggled with the pollution generated by the facility, and the community had endured an informal “cover up” by the federal government. Yet finally, resources were allocated to the area in partnership with the Sao Paulo state government, resulting in a partial recovery.510

Another interesting action carried forth by Petrobras was the TAMAR Project, a major effort to protect the Brazilian Sea Turtle from extinction.511 By using several teams of environmentalists and biologists, Petrobras played an important role in preserving an important specimen of the native fauna.512 For several years, TAMAR became one of the main preservation projects in Brazil, and it served as a positive publicity stunt at a time when the company’s image was tarnished by crises and scandals. Petrobras was also able to garner resources to allow the company to catch up with the majors use of information technology. Petrobras did so by partnering with IBM, and became the first Brazilian company to make full use of “supercomputers.”513 That new technology allowed the company to develop in its CENPES laboratory, which could

510 Idem.
511 Idem.
512 Idem.
compile and analyze seismographic and other geologic information, enhancing the company ability to explore oil at even greater depths.514

Another main feature of Petrobras’ expansion during the 1980s was its goal of extracting oil at water depths of a 1000m or more. Petrobras was already drilling at 700 m by the mid-1980s, a world record for the time, but in planning to go even further the company launched a project called PROCAP aimed at creating Brazilian technology able to reach a full kilometer.515 PROCAP was Petrobras at its best, using Brazilian knowhow and resources in cooperation with foreign scientists and suppliers. PROCAP was more than a corporate project; it was a scientific endeavor that involved more than fifty national and foreign partners developing ninety-six different individual projects in order to achieve that goal.516 Technology was pivotal, since 1980s Petrobras studies had shown that to further advance into the Campos Basin the company would need to reach the 1000m mark.

Petrobras’ expertise was highly demanded internationally for joint-ventures in offshore operations. The company was able to expand its activities, especially through Braspetro and Brasoil, and oil services subsidiaries for Braspetro. One of the main areas of expansion for Petrobras was in North America, where the company conducted offshore exploration in the Gulf of Mexico.517 Petrobras also concluded several lucrative deals to sell gasoline to the US market.
though its subsidiary located in Houston. These gasoline sales were a smart strategy that offset some of the losses in market share to subsidized alcohol in Brazil.518

Another front where Petrobras expanded was to the North Sea, where the company developed several joint-ventures with the Norwegian state company Statoil. The Brasoil Norge activities achieved some success in exploration and the provision of services in the Stavanger area.519 Petrobras also expanded its activities in the United Kingdom, China and Angola, where it was especially successful in exploring Blocs II and IV of Angola. The Braspetro services division was also in high demand in Angola as a provider of support to Shell and Sonangol. Through these initiatives, the company was able to limit its downfall during the 1980s, but as economic conditions worsened between 1988 and 1990, Petrobras would be close to collapse towards the end of the Sarney administration.

3.6 Tears in Wasteland - Sarney’s Last Days and Petrobras’ Final Demise

It was no secret that after the complete failure of the Cruzado Plan the Sarney administration had sunken itself into the abyss. With a foreign debt standing close to US$ 150 billion, Sarney not only failed to achieve meaningful renegotiations with the IMF and other creditors, but he also declared a meaningless moratorium on its foreign debt in 1987. The moratorium completely

cut Brazil off from foreign markets, making the country more reliant on domestically supplied goods and creating more inflationary pressure. While Sarney’s final two finance ministers, Luis Carlos Bresser-Pereira and Mailson da Nobrega, were merely trying to keep the ship afloat, Sarney was struggled to properly address the economic instability caused by the hyperinflation.\(^{520}\)

Meanwhile, the 1988 constitution had finally been drafted after long and tiresome talks that generated one of the most exotic pieces of legislation ever conceived in the Western hemisphere. The 1988 constitution espoused an anti-business view of the world, one that believed that only a closed economy could bring real development. At the same time, the lengthy charter created a plethora of rights and expenditures that overburdened a country already dealing with a massive foreign debt and extensive bureaucracy.

Petrobras offers one of the best examples of how it hurt the same institution it alleged to protect. For the Left, Petrobras was more than a company; it was a shrine of national development. Therefore, in their view, the company had to be protected from “all evils,” especially those that came from abroad.\(^ {521}\) As a result several congressmen wanted to expel all foreign oil companies from Brazil, an unfortunate idea that seemed to be gaining momentum before the final draft, to the complete shock of the pro-business wing led by former finance ministers Delfim Netto and Roberto Campos.\(^ {522}\)


\(^{521}\) “A Lei no esouro.” Veja, June 22nd, 1988. Veja was used here to demonstrate how Petrobras was facing a huge administrative/financial crisis during the late 1980s.

The polemic reached its height when Petrobras executives had to address the Brazilian Congress in the odd position of defending competition in the Brazilian retail fuel market. The company had to explain the obvious to the Congressmen, which was that despite competition in the domestic market, the foreign Majors were also global partners of Petrobras all around the world. In the end the ban was dropped, but new risk contracts for exploration were now forbidden. The new constitution managed to hurt already weak Petrobras finances after approving an extremely favorable labor law which increased its expenditure upon the workforce to perilous levels. In his 1989 address to shareholders, Petrobras’ president openly complained about the new labor rights burden imposed upon the company, which he believed represented a barrier to the company’s further development. The clearest example of this was the mandatory wage increases of 70% imposed on Petrobras by the Constitution, worsening the company’s already fragile economic situation.523

By 1989, all of these negative factors would bring Petrobras close to breaking point. The economic chaos generated by the heterodox plans affected the company’s main source of income, its sales in the Brazilian market. In a situation where for every liter of gasoline, 68% of the price was made up of subsidies and taxes, producing a profit was an impossible task.524 The last days of the Sarney administration were marked by confusion and a complete lack of organization. President Sarney even struggled to find a new Petrobras president as nobody wanted to serve under his aegis. Finally as a matter of duty rather than of rationality the veteran Petrobras

524 “O Gigante Doente,” Veja, October 28th, 1987. Veja was used here to demonstrate how Petrobras was facing a huge administrative/financial crisis during the late 1980s.
executive Carlos Sant’Anna accepted to become the new president. The company would certainly need a safe pair of hands for Sarney’s last year in office.

In 1988, *Veja* made a serious accusation of corruption at BR *Distribuidora*. Its president, General Agberico Barroso was a Sarney family friend, even serving as the best man at Sarney Filho’s wedding. One of Barroso’s leading aides was Geraldo Magela, whose success at the company was a mystery to many. Magela initiated a kickback scheme with Brazilian banks, where the banks would pay him in order to obtain a cut of the BR financial operations. However at a certain point Banco Nacional and Bamerindus grew tired of Magela’s game and denounced him to federal authorities.

Magela and Barroso became an enormous source of embarrassment for the ailing Sarney administration. As if things were not bad enough, Petrobras unions called a huge strike asking for wage compensation due to losses from wage freezes instituted by the Bresser Plan. The strike left Brazil’s oil stocks perilously short and the country almost ground to a halt. The bad news emerging from Petrobras seemed to be continuous, calling the attention of the Brazilian Congress, which decided to set up a Congressional Inquiry Committee (CPI) to analyze the roots of Petrobras’ woes. The commission was led by Senator Jose Fogaca (PMDB-RS), and was supported by other political grandees.

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525 “Problema de amigo”. *Veja*, December 7th 1988. *Veja* was used here to demonstrate how Petrobras was facing a huge administrative/financial crisis during the late 1980s.
526 It is not the same Geraldo Magela who happened to be Brazil’s Defense Ministry from 2000 until 2002.
528 “Um lugar na mesa de negociações.” *Veja*, November 23rd, 1988. *Veja* was used here to demonstrate how Petrobras was facing a huge administrative/financial crisis during the late 1980s.
Several Petrobras executives, former presidents, former ministers, and union leaders testified before the parliamentary commission between 1989 and 1990, when its final report was released. The final report from the commission is extremely illuminating on the roots of Petrobras problems during the 1980s, and it also allows us to understand why those same troubles were not solved and the mindset behind the company. In his opening statement in the final report, Senator Fogaca said that the company’s awful situation obliged the Congress to offer a clear answer to society.\footnote{Senado Federal. Da Comissao Parlamentar Mista de Inquerito, encarregada de investigar a atual crise financeira no Petroleo Brasileiro S.A.- Petrobras, assim como possíveis irregularidades administrativas. Relatório N 14 , 1990. Brasilia. p.3.}

That answer was much clearer than previously thought. Understanding Petrobras problems was not hard, but breaking the cycle that created those troubles was. According to Carlos Sant’Anna’s testimony, Petrobras lost investment power after 1985 since Brazil was cut from the international lending markets following the Debt Crisis and Sarney’s moratorium. Sant’Anna also revealed that the federal government had a debt with Petrobras in the order of US$2.7 billion.\footnote{Ibid. pp. 3-7.} State companies, such as SIDERBRAS (steel mills) and ELETROBRAS (electric energy) did not pay their bills to Petrobras, especially for purchases of fuel oil and gasoline. One of the legacies of the Figueiredo administration was the legalized default that state companies imposed on one another, creating financial havoc for all of them.

Another huge problem brought out by Sant’Anna was the debt of the National Oil Council (CNP) to Petrobras from alcohol subsidies. The alcohol losses stood at US$ 700 million, and
by 1989 Petrobras sought to exit the situation, bringing down the whole alcohol supply chain.\textsuperscript{531} Sant’Anna also blamed Sarney’s economic plans and price freezes that cost Petrobras more than US$ 2 billion, since the company could not seek compensation through increased prices. He suggested that the company should be immediately be compensated by the federal government, so that it could recoup its investment power. \textsuperscript{532}

The testimonies of former Petrobras president, Shigeaki Ueki and of Finance Minister Mailson da Nobrega pointed towards a different reaction. They also agreed with Sant’Anna that the company needed to restore its financial capability and had to modernize and integrate with the global markets.\textsuperscript{533} However both men criticized the corporatist mood within the company and the aversion of some of its people to competition. Ueki, even affirmed that Petrobras monopoly on oil exploration needed to end and that it represented a burden to the company. He argued that Petrobras’ thrived on competition and almost begged the Congressmen to stop the more radical plans intended to completely close the Brazilian oil market to any foreign presence.\textsuperscript{534}

The union leaders Diomedes da Silva and Luiz Maia brought other vital matters to the table. They argued that there was a conspiracy within the company, led by the Finance Minister Mailson da Nobrega designed to purposefully worsen Petrobras’ situation and force privatization. Silva and Maia also argued that there was significant corruption within BR Distribuidora and Petroquisa (refining).\textsuperscript{535} Some BR gas stations were allowed to pay late for fuel shipments, depending on the connections of the owner. Petroquisa was accused of following government

\textsuperscript{531} Idem.
\textsuperscript{532} Idem.
\textsuperscript{533} Ibid. pp. 8-15
\textsuperscript{534} Ibid. pp. 22-25.
\textsuperscript{535} Ibid. pp.-14-16.
instructions to sell naphtha at a loss to several Brazilian industries. Both schemes were said to have cost Petrobras somewhere around US$ 4.8 billion.\textsuperscript{536} Beyond that, union leaders complained about security issues within the company and deteriorating working conditions that resulted from the company’s terrible financial situation.

Although, there was certainly no conspiracy to privatize Petrobras, that argument served to garner sympathy for union leaders in their frequent strikes. They had leveled very serious accusations, and their testimony was an important part of the final report summary and recommendations. Senator Fogaca argued that the federal government was in fact exerting a “legal extortion” of Petrobras, by using its control over the company to make Petrobras operate under impossible prices and subsidies.\textsuperscript{537} According to the report’s conclusion, Petrobras’ losses due to price freezes stood at US$ 2.8 billion, and total losses during the Sarney administration amounted to US$ 3.6 billion.\textsuperscript{538}

The final report urged the company to operate with more open corporate practices in accordance with the spirit of a full democracy. The report also suggested that the federal government had committed “five technical illegalities” that had to be resolved in a court of law. There was a final piece of populism in the report, which affirmed that Petrobras was under threat from its enemies and had to be “saved” from privatization, and that it was the Congress’ duty to resist the “privatist wave”. Despite all the testimonies and two years of investigation, in old Brazilian fashion nobody was ever prosecuted and the Commission was quickly forgotten under the weight of subsequent scandals that rocked Petrobras in later years.

\textsuperscript{536} Idem.
\textsuperscript{537} Ibid. pp. 27-35.
\textsuperscript{538} Idem.
The report’s greatest value was to present a clear outline of how Brazil had imploded during the 1980s: a fast push towards industrialization backed by a highly centralized bureaucracy that had a penchant for patronage, inefficiency and waste. The inherent problems of that centralized bureaucracy were made worse by the lack of leadership shown by Figueiredo and Sarney, whose governments lacked a clear sense of purpose. In their defense, the economic course previously set by Medici and Geisel of fast paced domestic industrialization did not leave them with too much room for maneuver. Brazil needed enormous quantities of foreign energy and capital and once there were crises in both areas then the economy’s other flaws were immediately exposed.

In the middle of this maelstrom, Petrobras found niches where it could develop and thrive, despite its own perilous financial situation. As long as the company had access to foreign credit, the exploration of the Campos basin and the discovery of new productive areas onshore in Rio Grande do Norte and Amazonas would confirm the company’s expertise in exploration. Despite a severe lack of resources during the second half of the 1980s, Petrobras was still able to invest in increasingly important IT and modernize its communications and research infrastructure. However in the end the financial woes caused by the complete lack of organization within Brazil’s giant bureaucracy brought Petrobras to its knees, directly affecting its core activities. Neither Figueiredo nor Sarney cut the company’s size, especially in closing some of the burdensome subsidiaries like Interbras and Petromisa.

As Brazil was dragged into the black hole of the Debt Crisis, chaos took hold within its enormous bureaucracy. Brazil’s political leaders (military and civilian) took on a bunker mentality and ended up making problems even worse than they already were, bringing the country to the verge of social anomaly. The story of the 1980s in Brazil was one of denial where the political and
intellectual elites failed to grasp the country’s real problems, and avoided tough state reforms needed to correct those problems. As the 1990s arrived, it became clear that Brazil once again needed a coherent and realistic oil policy, one that could strengthen Petrobras. This required a complete macroeconomic turn, one that could restore stability, and with that revive Petrobras’ fortunes. Before that could actually happen, the night would grow darker still before the dawn.

By 1990 the world was changing fast. The Berlin Wall was gone, and a new world order led by the United States was taking shape; a global economy led by the forces of information technology and free trade brought a new promise of prosperity. For many in the Western world, it was a time of unbridled optimism and hope that the 21st century would bring peace and stability. Amidst these colossal changes, one thing seemed to remain exactly the same: the Brazilian economy.

Whilst the world was debating global trade at the famous GATT Uruguay round (1991) that culminated with the creation of the World Trade Organization, the Brazilian economy was still one of the most closed to foreign trade. The clear result of that attitude towards trade, attached to entrenched notions of industrial nationalism, clientelism and patrimonialism created the perfect storm. Economic problems that had been instigated by the military regime, now came to their inevitable results producing widespread poverty, malnutrition and hyperinflation.

In the Brazilian oil business, the reality could not be different. After successive failed economic plans and mounting external debt still pending, Petrobras’s finances were in a shambles. The company could not make money in the Brazilian domestic market given price freezes that were imposed by the government in order to fight inflation. On top of that, the fact that the Brazilian government had struggled during the whole 1980s to map a serious route out of the Debt Crisis had made the country a pariah of the global lending market. Petrobras was suddenly unable to obtain credit to foster research and exploration.

539 International Monetary Fund. (1989) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1989 Article XIV consultation. SM/124. pp. 8-41.
By late 1989, this whole situation seemed to be unsustainable and a clear solution was demanded not only by the Brazilians, but also by its powerful foreign creditors. The problems that Brazil faced were clear, but it was uncertain how to resolve them. During the 1990s, the mantra of free markets had reached its zenith and, as economist Thomas Friedman would later observe, the leveling or old barriers to the exchange of goods and information meant that suddenly “the world was flat.” The Neoliberal gospel, as sold by the US government and the IMF, seemed to be a template of conservative modernization planning. It was a “one size fits all” kind of solution, and its rhetoric excited the imagination of the Latin American elites, in a way that was reminiscent of the era of *Los Científicos* in Mexico.

On the other hand, the majority of those on the Brazilian Left still had a mindset that was stuck in the economic debates of the 1950s. Although those progressive political forces called society’s attention to important issues such as inequality, race and gender, their perception of economics was out of touch with some other pressing needs of Brazil, such as the control of inflation and of the federal budget. The country’s main political force from the left, the Worker’s Party (PT), believed that only a more state intervention into the economy would provide solace to people’s woes.

In such a fractured political environment where both sides could not fully grasp the reality, and where the scars left by the 1964 military coup were still alive, finding a reasonable solution was difficult. The story of Petrobras and Brazil in the 1990s and is one of a long, painful and

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541 *Los Científicos* were the technocratic/elitist members of the Porfirio Diaz’s cabinet during his rule in Mexico. They were famously known for having a “scientific approach” in dealing with society’s woes, which was extremely detached from the country’s real needs.
quite unexpected healing process. From the dark days of the botched Fernando Collor administration, a slow process of reorganization of the economy and consolidation of democracy took place under the presidencies of Itamar Franco and Fernando Henrique Cardoso. Petrobras one was of the main beneficiaries of the economic reorganization, restoring its prowess and resurrecting its status as a useful economic agent once again.

It would be to simply depict Brazil during the period from 1990 until 2003 as pursuing a cold hearted and elitist Neoliberal model. This story is full of shades of grey, however, especially when the modernizing solutions defended by the IMF and the US government had to face the reality of traditional Brazilian mores in the realm of economics and society. An analysis of the Brazilian oil market may provide us with interesting insights about the gains and the losses that resulted from the reforms implemented during the 1990s. But even more importantly, a thorough analysis of this period may bring important reflections on why a potentially wealthy nation such as Brazil struggles to such a degree to fulfill its economic potential and cure its social woes.

4.1 The Eye of the Tiger - the Early Days of the Collor Presidency

The 1989 presidential election was certainly one for the ages, not simply because of the fact that it represented the first direct election to the presidency in thirty years, but also because it hosted an epic cast of presidential candidates. In an age when political “ad men” did not control the every move of a given candidate, elections were a raw, albeit more natural affair. Among the 22 candidates, towering figures of the republic such as Lula, Leonel Brizola, Paulo Maluf, and Ulysses Guimaraes contested a bitter election that still reflected the Cold War environment that was alive and well in Brazil.

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The Brazilian population, tired of more than ten years of economic problems, had an immense desire for something new, something that could signify a new beginning. Out of that need, two candidates with very different political projects soon emerged. Luis Inacio Lula da Silva reached national fame as a labor union leader during the iron first years of the dictatorship, where he constantly fought the authorities in Sao Paulo state for the right to industrial workers to strike. Those very public struggles transformed him into a political leader, and in 1980 he helped to found, together with Marxist intellectuals and Catholics attached to the Liberation theology, the Workers’ Party (PT). It was intended to be a party destined to venture where its communist counterparts had failed and one that aimed to offer an answer from the left to Brazilian social woes.

On the other side was the former Alagoas governor, Fernando Collor de Mello. Barely 40 years old, young and energetic, Collor embodied the idea of a modern conservative Brazil. He gained national prominence by establishing tough policies against civil servants in the poor northeastern state of Alagoas. Collor’s flamboyant style, attached to the fact that he seemed to be a ruthless cost-cutter, made him the new darling of the conservative media in Brazil, especially of the powerful media outlet Rede Globo. His pro-market policies excited the imagination of several significant Brazilian conservatives, who felt deeply that their advice had been overlooked by the Figueiredo and Sarney administrations.

The runoff between Collor and Lula was a hard fought one. Accusations were made from both sides about the candidates’ personal lives.\textsuperscript{544} In the end, Lula’s radical leftist policies and the media’s unfavorable depiction of him meant that negative perceptions of him soared before the final vote, on November 15th 1989. In the end, people did not exactly understand what they were getting from Collor, but many understood Lula to mean the “communist threat,” the same one that had been rejected in 1964. The notion that Collor was the “safe pick” prevailed.\textsuperscript{545}

The new president was a novice in Brasilia, where he had few connections. It quickly became clear that in order to govern he would have to reach beyond his cadre of supporters from Alagoas, something he tried to accomplish by appointing seasoned politicians such as Bernardo Cabral and Jarbas Passarinho to vital cabinet positions. But for other vital positions of Finance minister and president of Petrobras, Collor opted for bolder picks. His cousin, Zelia Cardoso de Mello was chosen mainly because she was president’s relative than for anything else. Despite a quite impressive academic resume, she did not have any previous experience in an appointed governmental position. This was certainly a hurdle for somebody who had to gain control of an economy with an inflation rate of 1.400\% a year.\textsuperscript{546}

At least in terms of discourse, Fernando Collor’s energy plan seemed to be ambitious. The new president vowed to bring modernity and efficiency to the federal government, especially when it came to to the oil business. President Collor was not interested in providing extra sub-

\textsuperscript{546} International Monetary Fund. (1991) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1991 Article XIV consultation. SM//124. pp. 8-45.
sidies for the Proalcool program, the result of which was a steeper fall in alcohol consumption. Brazil still had idle hydropower capacity, given the surplus created since the inauguration of Itaipu in 1984. Persistent economic troubles faced by the country, with electric energy demand taking much longer to pick up than technocrats had planned for during the late 1970s, especially in the residential use of electricity.  

In many areas of his administration there was a huge gap between President Collor’s intentions and actions. In spite of his great push towards the privatization of Petrobras subsidiaries, the economic hurdles brought by his economic shocks to end hyperinflation and the later political crisis that culminated with his resignation from office, rendered his energy policy largely ineffective. In this period of instability, where the federal government was spending 76.6% of its budget on civil servants’ wages and pensions, there was little left for other vital areas such as basic education and healthcare. In the end, Collor ended up in the same trap that had engulfed former-president Sarney.

The overwhelming costs of the bureaucracy and the foreign debt had fueled a cycle where hyperinflation was only the most visible result. The damage to the energy sector in Brazil due to the economic crisis between 1982 and 1994 had not yet been completely repaired. And the dilemmas faced by the federal government during the 1990s in the energy sector reflected the immense challenge that would be involved in the reorganization of this pivotal sector.

For Petrobras, the poisoned chalice had been served to Luis Octavio Motta Veiga. Motta Veiga was only 39 years old, a graduate of Oxford and the École Normale Supérieure, and the epitome of the Brazilian cosmopolitan elite. The Petrobras presidency was an even hotter seat than being the coach of the Selecao Brasileira. Since Shigeaki Ueki had left the post in 1985, there had been a new president every 9 months. The company was in complete disarray, with debts above US$ 2 billion and a debt/equity ratio of 51/49 and domestic oil output stuck at 650,000 bpd since 1986.549 Only a qualified group of engineers and administrators helped to keep the company afloat, with research and exploration limited to the bare minimum.

Despite fierce opposition from the state sector unions and socialist parties, between 1990 and 1993, 34 companies that were part of the Petroquisa system were selected for privatization. In addition, 8 companies from the Petrofertil system (Petrobras fertilizers) were privatized, a course of action that essentially extinguished Petrofertil. The essential goal was to make Petrobras leaner and more focused upon its core business.550

The Collor administration was moving with full force, highlighted by the president’s penchant for eye-catching performances, such as jogging in the streets of Brasilia and walking from the presidential palace to the Congress in order to demand action from the parliament. By March 1990, he implemented what became known as the Collor Plan I, replacing the now extinct Cruzado Novo, and bringing back the Cruzeiro as Brazil’s currency. The government froze savings and financial assets in order to reduce the amount of currency (M1) circulating in the market

and control inflation. This sudden freeze caused great turmoil, but during the first months after its implementation the plan seemed to be working, since inflation rates fell to 8% by June 1990, down from a staggering 80% the previous March.\textsuperscript{551}

Collor promoted an aggressive strategy designed to open the Brazilian economy to imports and attract foreign investment to Brazil. The president had ambitious plans to cut the federal government’s workforce and introduce a comprehensive privatization program. At Petrobras, Veiga followed Collor’s dictum. Non-essential personnel were cut, and the Petrobras workforce finally started to shrink from its 66,000 in the late 1980s to 55,000 in 1990.\textsuperscript{552} The cuts were slow and painful and any attempted change was met with fierce resistance by labor unions and opposition parties. Strikes occurred at Petrobras in 1990 and 1991 and almost brought the country to a halt, making it clear to Collor that the task of cutting long established benefits would be a challenging one.

Despite the gloomy climate that permeated Brazil in the aftermath of the Collor Plan I, Petrobras was able to claim some progress. Veiga was able to bring back the focus on exploration and research, especially concerning the development of the Marlim offshore field, which required US$ 1.8 billion for its full development.\textsuperscript{553} Within the Campos basin, Marlin was probably the most promising new field, containing what were referred to as “super fields.” Veiga also helped to reorganize the deepwater exploration program (PROCAP), which was pivotal to the

\textsuperscript{552} “Um caminho realista.” Veja, August 29th, 1990. Petrobras S.A. (1991). Relatorio Anual 1990. pp.15-37. Veja was used here in order to demonstrate how an important part of the Brazilian press was fond of Color and his neoliberal platform.
\textsuperscript{553} Idem.
development of the coveted Marlim field. Brazil’s oil output had been stuck at an average of about 650,000 bpd since 1986 with goal was to reach 700,000 by 1991 through the new investments.  

Petrobras also moved fast to implement advanced technologies. In 1990 it became the first Brazilian company to use one of the newest tools of the time, the email. The goal was that by 1995 the entire company should use what was then referred to as “electronic mail” as the single form of intracompany communication. Petrobras invested heavily in the use of Inmarsat C technology for its geological surveying and thorough analysis of the Brazilian basins. The company was also able to finally to shut down some of its subsidiaries, among them Interbras (trading), Petromin (mining) and Petrofertil (fertilizers). These subsidiaries were either to be sold or simply terminated by 1992, which was a relief for Petrobras, since they had represented a significant financial burden during the 1980s.

4.2 The Fall of the Great Oil Diplomacy (1985-1991)

As seen in the previous chapters, the Great Oil Diplomacy was one of the most important features of Brazilian foreign policy for almost twenty years. The need for foreign oil helped Brazil to create vital new trade relationships with nations as diverse as China and Nigeria. The Great Oil diplomacy expanded the reach of Brazilian exports through regular or barter deals that involved oil supplies but, most importantly, provided Brazil with its first real policy of global

\[555\] Idem.
\[556\] Idem.
reach. If Collor was the one that presided over its demise, he was far from being the only responsible party. The developing world’s economic woes and the rise of output from the Campos basin were the most significant factors in a much more complex story.

In fact, by 1982 the Great Oil Diplomacy was already unsustainable. The rift between Petrobras and Itamaraty was becoming wider, as diplomats believed some bad oil deals were essential to preserving important trade relations with key international partners. In essence, Petrobras was partially subsidizing Brazil’s foreign trade at the company’s expense. By 1982, domestic oil output was finally getting close to the 400,000 bpd and the Brazilian economy was contracting under the weight of the debt crisis, which lessened the demand for foreign oil.\textsuperscript{557}

Still in 1982, Petrobras realized that the company had a surplus in its oil stocks and some cuts were deemed necessary. Petrobras sent a telegram to the Itamaraty informing the ministry that the company would be unilaterally cutting its oil purchases from several countries.\textsuperscript{558} The Foreign Office felt betrayed and argued that such a radical move caused huge diplomatic problems, since it affected trade relationships that Itamaraty saw as vital. The oil company was struggling under the price freezes imposed by the Figueiredo Administration and did not retreat from its decision.

Another important factor in this turn of events was Petrobras’ access to credit to buy oil from abroad in the same way that it had before. From 1982 until 1994, Brazil was practically out of the global lending market, due to its high foreign debt and frequent missed payment deadlines.

\textsuperscript{558} 31/04/1982. Despacho ao memorandum DOP/41. 663.63 (E5) (B46) pp.1-8.
On that date Petrobras unilaterally cut its oil purchases from the following countries: Libya, USSR, Mexico, Ecuador, Argelia and Nigeria.
One such case was with Iran, a country that had been one of Brazil’s main suppliers during the 1970s. Immediately after the 1979 Revolution, Iranians cut their oil shipments to Brazil, but, by 1984, they were ready to resume business, despite the burden imposed by the war with Iraq.\(^{559}\)

Between 1985 and 1990, Iran mainly conducted bartered deals with Brazil, representing a good opportunity to export Brazilian products and to open opportunities on infrastructural projects for Brazilian companies. It was a major feat of Brazilian foreign policy to keep close relations with both Iran and Iraq at the peak of the war between the two countries. Nevertheless, by the late 1980s Brazil lacked the necessary credit assurances to complete major deals on oil and business between the countries declined. In the end, Iran felt that those barter deals were no longer in their interests, and the country retreated from expanded oil deals with Brazil until the mid 1990s.\(^{560}\)

Meanwhile, Iraq started to cause problems of its own for Brazilian foreign policy. Olavo Setubal and Abreu Sodre, Sarney’s foreign ministers, tried hard to keep to the general guidelines of the alliance with Iraq. Since Brazil was by the late 1980s importing only one third of its 1979 peak (960,000 bpd), Iraq’s importance diminished. However, Brazilian construction companies


such as Mendes Junior (construction) and Engesa (weaponry) still had important deals in the country. Several barter deals greatly favored the Iraqi government, where it received arms and infrastructure in exchange for oil. Since Saddam’s government was virtually bankrupt, the Brazilians were offering him a precious lifeline.561

By 1987 however, there were several complaints that the Iraqis were not sending the promised oil or were simply not paying several Brazilian companies. The crisis reached its peak in 1987, when a Brazilian diplomatic team went to Baghdad in order to negotiate with Tariq Aziz, Iraq’s foreign minister, and agree to a schedule of repayments.562 A comprehensive deal was reached where the Iraqi government promised that all the Brazilian companies would be compensated and that Brazil would benefit from expanded trade deals with Iraq. In the end, none of those promises materialized as Iraq’s foreign debt problem only became worse by 1990.563

When Collor became the new president he intended to change the focus of Brazilian foreign policy by becoming closer to the richer countries and setting aside the preference for deals with developing nations. For Collor, Brazil needed more financial resources and technology, and bankrupt developing nations such as Iraq could not provide either of these. By July 1990, Itama-

562 14/12/1984- Embaixada em Bagda. Comercio, Iraque, contrapartida em petroleo. 663.63 (E27) (B46)pp.1-5
raty warned the Iraqi government that their partnership would from that point forth be based on “market standards.” The old alliance was over. 564 Despite the ideological criticisms that were later on leveled against this policy by the left, Collor was essentially being pragmatic. For most developing countries the 1980s were a dreadful period where the prices of commodities shrunk and entire economies simply imploded under the burden of foreign debt. 565 Certainly there was an element of ideology in what Collor was doing, but there were not too many options available to him, and Brazil had ultimately reached a pragmatic position regarding problematic oil deals with several nations.

Ultimately, the only alliance that was still left in the Middle East was with Saudi Arabia, with whom Brazil had a more conventional trade relationship. Due to the oil glut of the 1980s and to their diminished imports, Brazilians received extremely favorable conditions from the Saudis, since oil prices fell from an average of US$ 32.00 in 1981 to US$ 18.00 by 1986. 566 Brazil bought an average of 160,000 bpd from Saudi Aramco between 1985 and 1991, confirming the Saudi position as a vital foreign supplier to Brazil.

The constant exchange between Brazil and Saudi Arabia brought dividends once again in 1990 and 1991 during the First Gulf War. The Collor administration’s answer to the Gulf crisis was clumsy, to say the least. At first, Brazil wanted to act slowly in its condemnation of Iraq’s

invasion of Kuwait, especially given that there were Brazilians still working there.\textsuperscript{567} But, when American intervention became a reality Color personally wrote a letter to King Fahd where he expressed his full support for the Saudi Kingdom and the United States.\textsuperscript{568}

Domestically, the government overreacted by declaring that they would enact emergency oil rationing starting in January 1991. The rationing lasted for only ten days, after which it was deemed unnecessary and the fiasco became another issue that sapped Collor’s popularity. In the end, Petrobras was able to secure additional oil supplies from Saudi Arabia and Venezuela, which covered for a possible emergency that never materialized.\textsuperscript{569} The First Gulf War marked the end of the Great Oil Diplomacy. It was over not because of ideological reasons, but mainly as a result of economic realities.

While the Brazilian economy was expanding at breakneck speed and needed to import 90% of its oil consumption, the Great Oil diplomacy was a vital component of Brazil’s development policy. But, with a lower GDP growth, less oil consumption, and vastly increased domestic output, there was no longer a need for such an effort. From now on, formal diplomatic oil deals made way for corporate diplomacy directed solely by Petrobras. This corporate diplomacy would remain an important feature of Brazilian economic development, albeit less grandiose in style.

4.3 False Dawn - The Downfall of Collor

In spite of the Sunday morning jogging, jovial appearance, and energetic style, by 1991 Fernando Collor’s lack of substance was evident. His economic shock, which he promised would be “the fatal shot at the tiger”, had simply failed.\(^{570}\) Hyperinflation had returned, and now the federal government had to deal with a torrent of demands upon the justice system from citizens seeking compensation for their financial assets that had been frozen during the Collor Plan I. The president was also unable to control the Brazilian budget and to carry forth his ambitious privatization plan.\(^{571}\) For all of his neoliberal populism, he had failed to foster the kind of coticlion necessary to implement the thorough change that Brazil needed.

Collor had been surprisingly elected with the small National Reconstruction Party (PRN) as the anti-Lula option, meaning the new president had to scramble to gain new allies within the traditional parties, whose leaders were never quite convinced of Collor’s abilities as a ruler. The president insisted on ruling like he had during the old days as the governor of Alagoas, where he worked very closely with an inner circle of fellow Alagoans, mainly led by Pedro Paulo Leoni Ramos, Paulo Cesar Farias, and Renan Calheiros. They worked for Collor as both advisors and henchmen and were increasingly attempting to pull the levers of the republic in all conceivable ways.\(^{572}\)

It did not take long for rumors of shoddy deals involving Collor’s lieutenants and several different branches of the government to emerge. As Collor did not put in the necessary effort to cope with the more traditional parties and the economy was in a shambles, he quickly found himself in a weak position. As a plethora of scandals started to emerge between 1991 and 1992, his political position became unsustainable leading to a process that would culminate in his impeachment by the lower chamber in September 1992, followed by his resignation in December 1992.

This story is all very well known: the scandals, Collor’s fight to stay in power, and the crimes committed by his henchmen. But, what has very often been forgotten, or rarely mentioned, are the successes of Petrobras that coincided with the beginning of Collor’s downfall. The brief 10 month tenure of Motta Veiga as Petrobras president was one of the few bright spots of a failed administration. By 1991 Petrobras was on its way to becoming a more efficient company under the reformist push implemented by Veiga. He had focused Petrobras on its core business, which was exploration, production, refining and retailing of oil products.

Veiga also implemented new standards of accountability and treated environmental issues with greater importance. This included the creation of a whole sector of Petrobras devoted to environmental care (SESEMA), which was especially important given Brazil’s great biodiversity. Petrobras had limited resources and in spite of the fact that it struggled to make a substantial profit due to the woes of the domestic market, the company was able to survive thanks to bond sales in the Eurobond markets. Little by little, Petrobras was healing, until October 1990 when

573 Two rounds of Petrobras bonds were sold in the Euromarket, with profits of US$ 250 million which helped the company to keep its cashflow. Sources: “Todo Mundo entendeu.” Veja, September 11th, 1991. Veja was perhaps the
Motta Veiga suddenly resigned from the Petrobras presidency.\textsuperscript{574} Eduardo Teixeira, who was closer to Collor, was appointed to replace him, but the push for reform was over.\textsuperscript{575}

A few months after Veiga’s resignation, several stories started to emerge in Veja magazine explaining his departure. In an impressive investigative effort, Veja unveiled a massive corruption scheme at Petrobras that had been operated by two of Collor’s henchmen, Pedro Paulo Leoni Ramos and Paulo Cesar Farias.\textsuperscript{576} According to the stories in Veja, Veiga fiercely fought the attempts of the two henchmen to use Petrobras for their own benefit. Since Veiga was adamant about not conceding to their will, he opted to resign.\textsuperscript{577}

Paulo Cesar Farias and Leoni Ramos were running several different rackets simultaneously. Farias was constantly harassing the Petrobras president to forgive a $13 million debt from an airliner carrier called VASP, which belonged to Farias’ friend, Vagner Canhedo.\textsuperscript{578} Since he had been appointed to the office, Motta Veiga was determined to squeeze Petrobras’ debtors. With that, Motta Veiga intended to end one of the main causes behind the company’s financial

\textsuperscript{574}“Bolero de Jaquetao.” Veja, October 24th, 1990.


\textsuperscript{577}Idem.

\textsuperscript{578}“Bolero de Jaquetao.” Veja, October 24th, 1990. A Republica das Alagoas.” Veja, July, 3rd, 1991. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.
woes, the unofficial default imposed on Petrobras by other state companies and well connected businessmen.\textsuperscript{579}

Ramos, who happened to be the chief of the Brazilian Intelligence Service (SNI) used his proximity to Collor to appoint several directors at Petrobras. At that moment, the company had $15 billion in long-term fixed contracts with oil suppliers around the world. But, there was $1.5 billion for short term contracts in the spot market, which was more flexible. What would be called the “PP scheme” acted on these short term deals through fake trading companies, and money was redirected from those contracts to private accounts through overpriced oil purchases.\textsuperscript{580} This scheme only seemed to expand further after the sudden departure of Veiga as Petrobras president.

During the Collor administration other corrupt dealings were carried out of the “Farias-PP universe.” These included the contracts won by the advertising agency Setembro that had also been responsible for Collor’s campaign. Setembro won US$ 2 million in Petrobras accounts in a contest that seemed to be rigged in favor of president Collor’s friends.\textsuperscript{581} When this was revealed by the Brazilian media, even Collor was almost sent to trial for peddling influence for Setembro, though he was later acquitted of any wrongdoing.\textsuperscript{582}

\textsuperscript{579} The debt of other state enterprises with Petrobras was in the order of US$ 3 billion by 1990, representing a huge burden to the company’s financial situation. Source: Petrobras S.A. (1991). Relatorio Anual 1990. p.10

\textsuperscript{580} “A estrela de PP.” Veja, April 1st, 1992. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.

\textsuperscript{581} “O reu ilustre.” Veja, March 6th, 1991.“Briga na Lei.” Veja, March 21st, 1991. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.

\textsuperscript{582} Idem.
Another important issue that suddenly entered the limelight when discovered by the Brazilian press was the over-pricing applied by construction companies Odebrecht and Andrade Gutierrez when building offshore platforms. In spite of the fact that the companies were Brazilian, the platforms were to be built in Singapore. Problems arose when the companies could not agree who would win the next contract, which spoiled their illegal rotation scheme for obtaining Petrobras’ contracts. When this surfaced, Petrobras president Alfeu Valenca was fired (the third president during Collor’s tenure), but the construction of the US$ 250 million platforms continued. In typical Collor style, nothing happened to the offenders, but Petrobras executives were used as scapegoats for the corrupt schemes.

The final straw was when Motta Veiga decided to agree to an exclusive interview with Veja in June 1992, just as accusations against president Collor started to mount. In a self-imposed exile in London, Veiga affirmed that he was disappointed that he had been unable to keep up with his reform project at Petrobras. This represented a political bombshell and a major step towards what culminated in Collor’s resignation. Motta Veiga claimed in the interview that he was under constant pressure from Farias and Ramos, pressure that became threats after Motta Veiga refused to concede the benefits that they sought. The former Petrobras president described Farias as a “cheap filthy man,” arguing that it was “unbelievable that such scum could yield

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583 “O rateio das empreiteiras.” Veja, November 11th, 1991. “A estrela de PP.” Veja, April 1st, 1992. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.

584 “O rateio das empreiteiras.” Veja, November 11th, 1991. “A estrela de PP.” Veja, April 1st, 1992. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.
power at the upper echelons of the republic.” He even went further by affirming that Collor himself had sanctioned all of the corruption. 585

The claims made by Veiga filled an important element in the web of Collor’s corruption scheme, which ultimately brought down his presidency. In a remarkable work of investigative journalism that started in 1990, Veja was able to use the Petrobras scandals to demonstrate the president’s complicity in these dealings. Politically, it was a rite of passage for the still young Brazilian democracy.

For Petrobras, it meant something different though. The clear lesson was that it did not matter how capable or well-intentioned reformers like Motta Veiga may have been, changing the entrenched methods of operation in Brazil remained a daunting task. Corruption, privilege, and inefficiencies were ubiquitous within Brazilian state enterprises. It was not only difficult to foster a market-oriented logic within a state company, but even harder to break the notion that the oil company was a cash cow for the politicians that ultimately ruled Petrobras. These imbedded inefficiencies, coupled with complete macroeconomic chaos, did not allow Brazil to thrive and to take full advantage of the fact that oil prices were low and domestic oil reserves were plentiful.

4.4 The Undesired - the Presidency of Itamar Franco and the Conception of the Real Plan

The fall of Collor left a country in a state of shock and an oil company in peril. Both needed immediate healing and redirection. Destiny wanted that a task that was worthy of Ma-

585 “Eu nao quis colaborar.” Veja, June 17th, 1992. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.
hatma Gandhi, George Washington or a Winston Churchill was given to a man named Itamar Franco. Franco was a politician who was little known on the national scene, despite being mayor of Juiz de Fora (Minas Gerais) and senator for the same state for a long time. In 1989 he joined Collor’s party (PRN) in order to serve as the experienced running mate the young Collor needed to present a strong and credible ticket.\(^{586}\)

Itamar Franco was mainly a quiet man, far from being an inspirational character, and known for having a short fuse and making important decisions based on impulse rather than prior planning. He had quickly become the subject of several jokes about his odd hairstyle and rather aloof demeanor. Franco was often depicted by a popular comedy TV show *Casseta & Planeta* as president “*Devagar Franco*” (Sloth Franco) in sketches that showed an indecisive character uttering nonsenses, always joined by his sidekick, a turtle named “Flash,” epitomizing Franco’s lack of drive.\(^{587}\)

During the first days of his administration, the new president vindicated his critics. Franco ordered an immediate halt to all programs that involved either privatization or spending cuts. On top of that, he ordered that the Volkswagen Beetle should be manufactured once again in order to provide the poor access to a popular car and with that reignite the ailing economy.\(^{588}\)

Meanwhile, inflation was reaching more than a 1000% in 1992 and a chronic form of stagflation


\(^{587}\) “Planeta em casseta.” [youtube.com](https://www.youtube.com/watch?v=V5IieCmpZ6Y). Last accessed on April 7th 2016. Url: [https://www.youtube.com/watch?v=V5IieCmpZ6Y](https://www.youtube.com/watch?v=V5IieCmpZ6Y).

was taking root in Brazil.\textsuperscript{589} Franco at least knew better than Collor how to play the political game, so necessary to survive in a fractured party landscape, and secured the support of the traditional parties by granting them power in his cabinet.

While the Brazilian economy struggled, Petrobras was also fighting for its very survival. The gains made by the Motta Veiga short tenure at the helm of the company were minimal when compared to almost a decade of mismanagement and waste. Petrobras had the know-how to develop the giant fields of Marlim and Barracuda, and still had a respectable research and refining infrastructure. Yet the company, like the country as a whole, first needed a reality check and then a thorough reorganization. After years of failure and scandal, the company’s image was almost tainted beyond repair. Brazilian and foreign analysts speculated that the company would soon be privatized, this being the only possible way out.\textsuperscript{590}

In order to deal with such a complex problem, Itamar Franco selected Joel Mendes Renno, a senior executive from Petrobras and Vale do Rio Doce, to become the new president. Joel Renno was a company insider, having worked in several pivotal executive positions at Petrobras, including in the coveted post of Head of Exploration and Production during Shigeaki Ueki’s tenure as president (1979-1985). If Renno had only reorganized the company, he would already be seen as nothing short of a miracle maker, but he went beyond that. Nobody could ever have predicted that Renno was about to become one of the most important presidents in the history of Petrobras.

\textsuperscript{589} International Monetary Fund. (1993) From the Secretary to the Executive Board. Brazil - staff report and proposed decision for the 1993 Article XIV consultation. SM//124, pp.15-39
In his first op-ed to the 1992 Petrobras annual magazine, Renno emphasized how challenging it would be to put the company back on its feet. His main goals were to restore the company’s ability to fully explore the potential of the Campos basin and to restore its financial strength and international presence.\(^{591}\) None of these would be easy to accomplish. According to Pricewaterhouse Coopers, Petrobras’ debt to equity ratio was 61/39, a financial disaster.\(^{592}\) According to the same report, Petrobras was buying crude in foreign markets at US$ 19.00 a barrel and being obliged to sell fuel on the domestic market as if crude cost US$ 13.00 due to price restrictions imposed by the government in order to fight inflation.\(^{593}\)

Despite these major hurdles, a process of corporate reorganization started under the aegis of Joel Renno. The years of 1992 and 1993 represented the early stages of Petrobras’ rebirth as an oil company. Among the main initiatives were the developments of Phase I in the Marlim field and the Phase II in the Albacoara field. At the same time the company launched a US$ 75 million investment in deepwater drilling (PROCAP 2000) which was intended to exceed an exploration depth of 720m.\(^{594}\) During Renno’s tenure a trend of building offshore platforms in Singapore was consolidated, since cost efficiency goals had dictated that this was where all the platforms for the new giant fields (GVA-4500 type) would be built.\(^{595}\)

Another important turn during the early 1990s was the trade potential created within the South Cone Common Market (MERCOSUR). Argentina had privatized its entire oil industry by

\(^{593}\) Idem.  
\(^{595}\) Idem.
1992, and its market held great promise in terms of exploration and retail operations. Petrobras saw this as an opportunity and decided to approach the Argentine company YPF with the proposal of forming a broader partnership.596 With the full support of the new Brazilian Foreign Minister, Fernando Henrique Cardoso, Petrobras was able to secure a broad deal with YPF. Braspetro, Petrobras’ international arm, would explore oil at the promising San Julian Cuenca basin. On top of holding those positions in the South Atlantic, Petrobras and YPF would negotiate an exchange of assets in retail businesses and Brazil would increase its oil purchases from Argentina.597

Despite the initial progress made by Renno, it was simply impossible for Petrobras to go farther given the state of complete chaos faced by the Brazilian economy. The hyperinflation caused by the imbalanced federal government budget continued to grow worse. With inflation reaching an annual index of 2400%, even Itamar Franco felt it was necessary to treat the problem seriously.598 He wanted to put together a new economic team that would devise a feasible plan to tackle inflation once and for all.

His choice of Fernando Henrique Cardoso, the current Foreign Minister, came as huge surprise. Not even Cardoso himself had expected it, and since he was enjoying his current tenure as Foreign Minister, he was unwilling to locate himself at the center of the public’s ire at the Finance Ministry. In the end, Cardoso accepted the appointment on the condition that he could

work with his own team and be allowed the room to make the decisions.\textsuperscript{599} Given the desperate situation faced by Brazil, Itamar Franco accepted Cardoso terms and became the new Finance Minister in May 1993.

In the third month of his tenure, Cardoso went to testify to a congressional committee on privatization. His testimony at that time is very interesting, since it provided a clear blueprint of his intended course of action. Cardoso argued that he was not aiming for a heterodox shock, like that introduced by the previous administrations of Sarney and Collor. It was time to recognize that the concept of “inertial inflation”\textsuperscript{600} had simply become an easy scapegoat that obscured the fact that the federal government’s budget deficit was responsible for the hyperinflation that plagued the lives of Brazilians.\textsuperscript{601}

Cardoso also emphasized that it was important for the government to recoup its investment capacity, so that it could focus on the essential responsibilities of the state, which in his view should be healthcare and education. In that sense, it was important to rid the state of the extra weight represented by the several state enterprises that had been losing money since the times of the military junta.\textsuperscript{602} With regards to oil, Cardoso affirmed that he believed a privatized and competitive YPF was a clear model for Petrobras in the future. He also recognized that it...
was pivotal to modernize the oil industry in Brazil, pointing out that the petrochemical sector had not received meaningful investment for more than three years.\textsuperscript{603}

One of Cardoso’s merits was the fact that he was able to assemble and hold together a very talented economic team, one that shared his view of what the real problem was and that also understood the measures necessary to control inflation and balance the budget. Seasoned economists such as Andre Lara Resende, Edmar Bacha, Persio Arida, Pedro Malan, and Gustavo Franco had worked for the government before and also had extensive academic knowledge. They understood where the previous plans had failed and were aiming to succeed where others had failed before.\textsuperscript{604}

The so-called Real Plan early stage happened when there was a “transitional currency” (URV in Portuguese) that was pegged to the US Dollar was implemented by early 1994, while the actual currency (Cruzeiro Real) was left to devaluate.\textsuperscript{605} On July 1st 1994, the transitional currency would become the new unit, called Real, and would be allowed to float its peg to the dollar within a certain margin as defined by the government. The hope was that the transitional currency would move toward eliminating inflation as a “Brazilian habit” while putting the federal government’s budget under control.\textsuperscript{606}

Once the transitional currency was established and Brazilians were given the opportunity to recognize what a strong currency looked like, the Real would inherit the value of the URV. In

\textsuperscript{603} Idem.
tandem with the new regulation of the budget and the renegotiation of foreign debt, the Real was expected to tackle hyperinflation once and for all. The transitional mode proceeded without major problems through to early 1994. After July 1st it would be time for the great experiment to begin.

Itamar Franco was deeply Catholic and as soon as he took office the new president touched a statue of Santa Teresinha and said: now, it is everything up to us my dear little saint. He was probably on his knees on June 30th 1994 in the Palacio da Alvorada (presidential residence) praying that his plan would actually work. His presidency and his place in history were in jeopardy, and few times in Brazilian history have the stakes been so high. The economic team was optimistic, and to Itamar Franco’s credit he supported them all the way, enduring terrible pressure from influential political bosses who saw no sense either in the Real Plan or in reorganizing the federal government. What happened on July 1st was beyond the government’s wildest dreams: one of the most obtuse presidents in Brazilian history, helped by a sociologist who had become the Finance minister, together conceived an stabilization plan that was able to tackle hyperinflation.

From July 1st to December 31st 1994, inflation fell to its lowest rates since the early days of the Cruzado Plan in 1986. Suddenly, people’s purchasing power had returned. The combination of lower inflation and a strong currency caused consumption to soar, but this time the government was ready to address the issue. There were no price freezes and the strong Real al-

607 “A hora da reacao.” Veja, November 25th 1992. Veja was perhaps the best informed publication about the federal government during the Collo’s years in power, which make its use particularly essential to this section of the dissertation.
608 From July 1st 1994 until January 1st 1995 average monthly inflation was less than 5% while between 1992 and June 30th 1994 was of 40%
lowed Brazil to import everything it needed, avoiding a shortage of consumption goods, which
was certainly a problem in other plans.

Oil imports did not initially rise, but by 1998 a considerable growth in imports and do-

cestic production as a result of economic stabilization would be well established.\footnote{Republica Federativa do Brasil. Ministerio das Minas e Energia. 1998. Boletim Energetico Nacional. pp. 17-23.} Petrobras had idle capacity, meaning it could deal with a surge in demand, and since oil prices were low
during the mid-1990s (Petrobras was buying between US$ 18.00 and US$ 20.00 a barrel), oil did
not represent a major factor driving inflation, as it had during the 1970s and early 1980s.\footnote{Idem.}

The great success of the Real Plan placed the Finance Minister Cardoso as the frontrun-
ner for the presidential race in 1994. Once again, the Worker’s Party leader Luis Inacio Lula da
Silva was to be the strongest candidate from the left, where he opted for a strategy of attacking
nomist Historical Archive, 1843-2012. Web. 9 Apr. 2016} Yet, what Lula and other influential characters from the Brazilian left struggled
to understand was that the Real Plan went further than currency stabilization. The architects of
the Real had understood that only a major reform of the federal government could consolidate
the gains made by the initial stage of their plan.

In their 1994 campaign manifesto, Maos a Obra, Cardoso’s team made clear that in order
to foster permanently low inflation, the Brazilian energy market needed a complete revamp. The
Debt Crisis had hampered the state enterprise’s ability to invest, since the government’s cash
flow was oriented towards meeting its own payroll and servicing the debt. What Cardoso’s economic team envisaged was opening the Brazilian energy market to private investment from where they could compensate for the lack of investment capacity on the part of the federal government.

If GDP continued to grow as a result of low inflation and expanded income, it was expected by Cardoso’s economic team that the energy sector would need investments of US$ 40 billion until the year 2000. From that amount, US$ 14 billion would be designated for the oil market and the task of putting Petrobras back to its feet. The idea of Petrobras privatization was left out of the campaign book, since it was understood that it could generate unnecessary controversy in an election where polls showed that Cardoso was poised to comfortably defeat Lula.

Riding on the wave of the success of the Real, Cardoso beat Lula by a landslide (54% x 27%) in October 1994. In a country accustomed to being ruled either by lawyers or generals, a sociologist was definitely a new experience. A cosmopolitan academic was not somebody that an average Brazilian could easily relate to, but Cardoso was a man that had gone through an interesting transformation from his days as a Marxist intellectual who had denounced the economic bondage of Latin America through Dependency Theory.

In his political biography, *A Arte da Politica*, Cardoso talked more about his own transformation as an intellectual and politician. For him, it became evident after 1985 that Brazil was falling behind other nations in the race to develop. He believed that for all of their immense faults, Reaganomics and Thatcherism unleashed the major forces behind the Third Industrial Revolution, vulgarly called globalization. In that sense, Brazil had faced not only the challenge to modernize, which was daunting enough by itself, but it had also to integrate into a very competitive global economy, one that Brazil had opted to keep at arm’s length since 1950.

The essential link between the development of the energy sector and macroeconomic stability can be verified by the analysis of data provided by the World Bank and the National Energy Bulletin (BEN). The initial reforms implemented by the Itamar Franco presidency, which culminated with the Real Plan in 1994, helped to create a favorable environment for consumption and investment in the Brazilian domestic market.

Considering that the oil industry needed large capital leverage to develop, microeconomic stability is a pivotal feature. Since Brazil has always struggled in its history with chronic low domestic savings, foreign direct investment (FDI) has always been necessary to finance large-scale projects.

During the pivotal period between 1980 and 2000, where the domestic oil output jumped from 160,000 bpd to more than 1.5 million bpd, there is a positive correlation with the growth of FDI in Brazil over that period. From 1980 until 1985, yearly FDI in Brazil was stable at US$ 1.5 billion, when oil output grew from 160,000 bpd to 500,000 bpd. During the acute phase of the
Brazilian economic crisis (1985-1993), FDI decreased to an average of US$ 950 million per year.\textsuperscript{615}

At this moment, Petrobras domestic oil output stagnated at 650,000 bpd, with only a mild growth seen since 1987, despite of the discovery of giant oil fields in the Campos Basin. With the stabilization plan launched in 1993 by President Itamar Franco, FDI levels increased again to US$ 3 billion and by the year 2000 had reached the impressive sum of US$ 31 billion. It is no coincidence that during that seven year period, when Brazil’s economic policies led to a healthier macroeconomic environment, the domestic oil output increased by approximately 900,000 bpd.\textsuperscript{616}

This data shows a scenario that may seem obvious to an expert from the oil industry, but is one line of argument that has been forgotten in the more recent historiography of Petrobras. Given the high volume of capital necessary to develop offshore oil exploration in deep water, Petrobras, as a mixed capital company, needed a positive economic cycle, one capable of attracting the necessary FDI to fully develop Marlim, Albacoara and Roncador giant fields. This was the moment where Petrobras and the Real Plan became interconnected, where a virtuous cycle in finance fostered the expansion of the Brazilian oil industry.

Brazil needed to promote modernization with social inclusion for the sake of its immensely marginalized population, whose paltry incomes had been destroyed by decades of economic mismanagement. In that sense, Brazilian society had to understand that globalization was


\textsuperscript{Idem.}
a process that it held its price and promise. The new government had to emphasize that a fierce engagement in global trade also presented a huge opportunity to generate wealth as president-elect Cardoso also argued that a neoliberal dogma would not solve all of Brazil’s problems, hence the need to have a strong state that could invest in welfare. For that state to exist, it had to have transparency, efficiency and a balanced budget. All of these factors had been virtually non-existent in Brazil since its independence in 1822.

On paper, everything was ready and the reformist wave was set to reach all areas of Brazilian life. Once again, the race towards a Western-style modernization had begun. What followed from 1995 until 2003 was an uphill charge where the grand vision of a modern Brazil would directly clash with its more traditional worldview and institutions. What made that clash even more interesting was the fact that the battle lines were fluid, affecting the outcome of the reforms. For the Brazilian oil market and Petrobras this would be an exciting time of change, one that would set the industry on a course towards unprecedented heights. But it would also be a period in which old problems would come back to haunt the company.

4.5 Troubled Rehab - the First Cardoso Term

Shortly after taking office in January 1995, Fernando Henrique Cardoso moved ahead with his structural reforms at full force. It was logical to proceed with some of the more controversial reforms, while the government still enjoyed its honeymoon with the voters and the administration held a favorable position in the congress. The main features of the General Plan of

State Reform were in the realm of welfare, taxation and the state enterprises. From day one, the new Cardoso administration was determined to move ahead with thorough reforms of the state enterprises, which would be either completely sanitized and reformed, or simply, privatized.

The new president had clear goals for the energy sector, centered around its liberalization, given the lack of state resources to make the necessary investments and expand Brazil’s energy output. Since a new age of economic expansion was expected after hyperinflation was tamed under the aegis of the Real Plan (1994), the demand for energy was expected to increase substantially. In the case of such an event, the Brazilian energy sector was ill prepared, since it had not receive substantial investment since the last days of the Figueiredo administration (1979-1985).

Facing a challenging scenario, the newly elected president Cardoso had to find a strong person to run the Ministry of Mining and Energy. Cardoso found the perfect candidate in Raimundo Brito, a lawyer from the state of Bahia, who had vast political experience in running state companies in the energy sector at the regional level. Brito’s nomination also served Cardoso well on the political front, since Brito was closely connected to the powerful Senator from Bahia, Antonio Carlos Magalhaes. Senator Magalhaes’ abilities as a shrewd political operator were vital for Cardoso to receive approval of his reforms in the Congress. Magalhes support

turned out to be so crucial that his party, the Liberal Party (PFL), was given the vice-presidential spot on Cardoso’s ticket.619

From the early days of the Cardoso administration, Raimundo Brito put in to motion an ambitious privatization plan for the energy sector. The goal was to use foreign investment in order to increase Brazil’s energy output, especially in the oil and electric sectors. Minister Brito aimed to privatize several state level electric companies that belonged to the federal government, and Raimundo Brito was interested in liberalizing the Brazilian oil market. Due to his technical expertise and political acumen, Raimundo Brito brought rare stability to a post that saw five different ministers in five years during the early half of the 1990s. His term in office (1995-1999) was also marked by an extensive series of accomplishments, making Raimundo Brito the most consequential Energy Minister since Shigeaki Ueki (1974-1979).

During his term, not only were the liberalization of the oil market and the privatization of the state electric sector achieved, but the use of natural gas and coal gained importance in the Brazilian energy mix. The strategy of increasing the use of natural gas was seen as pivotal by the Cardoso administration, which saw it as a vital energy source to fuel Brazilian industry. Important gas deals were struck with Bolivia and Argentina, culminating in the realization of an old Brazilian dream, the Brazil-Bolivia pipeline, inaugurated at the beginning of the second Cardoso term in office (1999-2002).620

After Raimundo Brito left office, troubles in the energy sector started to emerge, and the office of Minister of Energy saw a high turnover once again. But, former Minister Brito was not immune to criticism of his time in office. Despite the very successful policies in the oil and gas sector, the privatization of the state electric sector was problematic. Regulatory issues, lack of transparency at auctions, and suboptimal levels of investment culminated in the *Apagão* (big blackout) in 2001, where the major Brazilian urban centers struggled with power cuts and rationing. An unusually dry season that affected the dam’s water levels attached to a faulty policy planning by the Energy Ministry became a huge source of trouble to President Cardoso, who saw *Apagao* becoming a political football in the 2002 general elections.621

Despite all of these troubles, the energy sector was affected by positive changes during the Cardoso presidency. With a more stabilized macroeconomic scenario, Brazil’s demand for energy saw an overall increase in demand unseen since the early 1970s. Between 1994 and 2003, overall energy consumption grew by 60% from 1990 levels (120.10/6 toe to 180.10/6 toe). Electricity consumption rose from 200 gWh to 300 gWh between 1990 and 2000 and oil consumption saw an increase in consumption by approximately 500.000 bpd, a 50% increase from 1990 levels.622

These are interesting numbers that demonstrate how the Real Plan affected the energy sector, and how lower inflation affected people’s consumption patterns and industry demands. The end of the idle energy demand, a trend that continued during the 2000s, demonstrated how the Brazilian economy was entering a positive cycle. During that period of growth that lasted

until 2011, oil and electricity followed different paths. While the Brazilian oil industry was able to cope with increasing demand, the electric sector failed miserably to adequately increase its output, representing one of the greatest failures of the energy liberalization program started in 1995.

The first targets of the liberalization program were the banking system and the oil market. Given the intricacies of the “Brazilian Coalition Presidency,” support from the Congress was not a given and had to be earned through different parties with little ideological attachment.\(^{623}\) Polling the Brazilian congress the Cardoso administration realized that reforming the oil market would be no easy feat. For the advocates of a complete privatization of Petrobras, the news was not good. It became clear that a vast majority of congressmen opposed the privatization of Petrobras, considering it to be a strategic company, just like the Banco do Brasil and Telebras.\(^{624}\)

It was not all bad news for the reformers; the Brazilian Congress in 1995 was more pro-business than the one that had drafted the 1988 constitution. While in 1988 the congressmen wanted to grant Petrobras the complete monopoly of all stages of the oil business, by 1995 such a radical position was contested. The 1995 congress was surprisingly open to a series of reforms that were unthinkable to its peers during the 1980s. The poll demonstrated that 58% of all congressmen supported the idea that Petrobras should be competing with other oil companies in all stages of the oil market, including exploration and production.\(^{625}\) Free market competition in


\(^{625}\) Idem.
other areas of the oil sector such as refining and transportation enjoyed wide support from the Congress, surprisingly including even some congressmen from the Worker’s Party (PT).  

The most difficult task seemed to be persuading the population on why the reforms were so necessary and what were the principles that guided them. Another comprehensive poll conducted by the Cardoso administration in the major Brazilian cities demonstrated a dismal level of support for reform. The pollsters concluded that the vast majority of the population had scant idea as to why the emphasis on reform was so important. The polling showed that most of the population thought that the reforms were about to make their lives “even worse,” and that the workers’ rights were “under attack.”

Since Brazilian people struggled to understand the main drive behind the reforms could actually benefit them, it became hard to rally popular support. But, the need for state reform could not wait for an awakening of popular consciousness; Cardoso understood that he had to move fast in order to garner success as fast as possible, so the reforms did not fall into the morass of bureaucratic congressional procedures. In that sense, the government put itself to work in order to assemble a strong coalition in the Congress that could deliver the majority necessary to approve the vital constitutional amendments.

Government reports clearly expressed the dismal state of the federal government’s finances. Brazil was spending 9% of its GDP on civil servants’ payroll. If retirement rules did not change soon, by 1998 the federal government would spend 40% of its payroll upon civil

626 Idem.
628 Idem.
servants’ retirement plans. Such numbers obliged the government to act fast and shrink federal spending, so inflation remain low and the state could recover its ability to invest.629

Once again, the government vowed it was committed to what it called “social-democrat solutions,” and expressly rejected what they called “unilateral ideological solutions.” 630 The Cardoso administration’s view was that the free market and a strong state could be reconciled, and it was the government’s duty to uphold what they called the “Logistic State.” These reports are pivotal in contradicting the Brazilian perception that the Cardoso’s administration was purely Neoliberal.631

In February 1995, the federal government unveiled its ambitious new oil law project. The project was indeed bold for Brazilian standards, it predicted the end of Petrobras monopoly on oil exploration, refining, import, and transportation. The new law also created the National Oil Agency (ANP), which would have the duty to auction Brazilian oil fields, open to among Petrobras and its foreign competitors. The new ANP would also be responsible for regulating all stages of the oil industry in Brazil and promoting an environment of market competition between Brazilian and foreign oil companies.632

630 Idem.
Immediately the opposition led by the Workers Party and the labor unions rallied against the new oil legislation. Their argument still upheld the view that any model for the oil industry that involved private participation, regardless of whether it was foreign or domestic, would not benefit the country. The majority of the opposition still held the view that only a state oil company would be interested in the wellbeing of the nation, while private foreign capital was only interested in profits and the exploitation of the nation’s resources. Their economic view was vintage 1950s and could not grasp how capitalism had transformed itself since the days of Marx’s early writings.

The unions had a clearer battle cry. They understood that if Petrobras wanted to become a more market-oriented company, their privileges would be under attack. Since its inception, Petrobras awarded its workers with complete work stability plus generous retirement funds. On top of that, pay raises were also extremely generous. The fact that they were so generous was a good thing for workers, but it was also one of the reasons why the company had lost its ability to invest in other core areas of its business. The unions were simply doing their duty of holding their own ground, but the reality was that Petrobras was over staffed and that even if some rights

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were limited, its benefits package would be extremely generous by Western corporate standards.  

Under the cry of “treason” and “sellout,” Petrobras unions supported by the opposition organized the largest strike in Petrobras history in May 1995. Their demands were that the pay raises given by Itamar Franco in the last days of his administration should be upheld by the new president Cardoso. They also demanded that the new oil law should not be submitted to a congressional vote, but rather eliminated entirely. The Cardoso administration understood the fact that Petrobras had been brought to a complete halt and this was a test of his will to reform the nation. The government’s position was that they were willing to negotiate, but not to retreat on the essentials of their new oil law.  

In order to sustain the momentum, the government understood that it was pivotal to avoid severe fuel shortages in the country, something that was achieved by increasing imports with the logistical cooperation from the foreign oil majors that operated in Brazil. The fact that the government was able to avert complete chaos, in spite of minor disruptions, turned the tide against the opposition and the unions. In the end, the Cardoso administration resorted to the ex-
treme measure of occupying Petrobras facilities with the army. The strike ended and the government was able to reject the union’s (CUT) demands.  

The Cardoso administration managed to overcome the strike and carry the new oil law to a vote in the congress. In the new legislature, approval of the new law demonstrated how the modern and traditional were completely tied to one another in the construction of the “new Brazil.” In order to approve the new oil legislation, the president had to negotiate with established party leaders, such as Jose Sarney (PMDB-MA) and Antonio Carlos Magalhaes (PFL-BA). The fractured political landscape of the Brazilian coalition presidency obliged even a popular president like Cardoso to engage in old political practices that he had dreaded. It was a high price to be paid by his administration for the sake of reform.

Eighteen months after the congressional approval, the president finally signed the law in August 1997. It was a major victory for the reformers, considering the fierce resistance that their proposals for Petrobras had aroused. Now, the ball was in Petrobras’ court and the company had until 1998 to prepare itself for a free market regulated by ANP. Petrobras faced an immense challenge ahead of the market liberalization, but the company was helped by some positive trends brought about by the Real Plan.

The main difference under the Cardoso’s administration was the liberalization of fuel prices, ending the practice of price freezing that had sapped Petrobras’ profitability during the

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1970s and 1980s. Another important difference after 1993 was the management of a comprehensive agreement on Brazil’s foreign debt by negotiators, meaning the country was finally able to fully benefit from the Brady bonds. With that, Brazil returned to the global lending market, which gave Petrobras instant access to vital credit to develop its exploration and production operations.

With these favorable conditions, Petrobras was able to dramatically increase its domestic output for the first time since the early 1980s, when there had been a jump from 180,000 bpd in 1979 to 500,000 bpd in 1984. According to the National Energy Bulletin of 1998, Brazil’s domestic oil output rose from 650,000 bpd in 1993 to more than 1 million bpd in 1998. Thanks to the reorganization promoted in all areas of the company by its leader Joel Renno, Petrobras was now a company focused on its core business and it once again had the resources to develop the giant fields in the Campos basin, which needed large investments to become fully productive.

A more confident Petrobras was also expanding abroad once again through its international arm, Braspetro. The Brazilian company was engaging again in comprehensive partnerships with other oil companies. In that sense, Petrobras expansion favored the Cardoso’s diplomacy of

increasing commercial ties with other countries in South America and in the developed world.\footnote{Silva, André Luiz Reis da. 2009. Do otimismo liberal à globalização assimétrica: a política externa do governo Fernando Henrique Cardoso (1995-2002). Curitiba: Juruá Editora. pp.213—228.}

Within that context, the deals with Venezuela and Argentina gained great importance during his first term in office. The consumption boom that followed the arrival of the Real put some pressure on Brazil’s oil consumption, which rose from around 1.2 million bpd in 1992 to 1.7 million bpd by the late 1990s.\footnote{Petrobras S.A. (1993). Relatorio Anual 1992. pp.6-19.}

The federal government understood that Brazilian domestic output could not respond to that surge in the short term, therefore foreign partnerships became a necessity. In 1995, Cardoso engaged in a high profile diplomatic mission to Venezuela, the highlight of which was the signing of a comprehensive partnership deal between Petrobras and PDVSA. Under the new agreement, Venezuela was poised to become the second largest foreign oil supplier to Brazil, to Saudi Arabia. Oil purchases from Venezuela jumped from 56,000 bpd in 1991 to 112,000 bpd in 1995.\footnote{Republica Federativa do Brasil. Ministerio das Minas e Energia. 1998. Boletim Energetico Nacional.pp.26.} PDVSA would also have a 5% share in a new Petrobras refinery to be built in the Brazilian northeast, and the Venezuelan company was also to become the largest foreign oil supplier to the north and northeast of Brazil, becoming a strategic partner to Petrobras in that region.\footnote{Petróleo Brasileiro S.A.(1996) Resumo das negociações Petrobras - PDVSA. Maio, 1996 Rio de Janeiro: Petrobras.pp.1-7.}

The new oil deal with Argentina followed the kind of the same logic as the one established with Venezuela. Itamaraty helped to intermediate useful oil deals that were spotted by Petrobras, in countries where Brazil was already engaged in meaningful trade. Since the Argen-
tine oil market was one of the most promising of the 1990s, with its business friendly rules and promising reserves, Argentina was seen by many oil experts as a new Eldorado.\textsuperscript{648} Another factor that helped the oil deals between the two countries to move fast was the deep personal synergy between presidents Menem and Cardoso, which resulted in several official state visits over their time in office.\textsuperscript{649}

The highlight of the new energy alliance between both nations was the agreement signed in 1996, which involved an exchange of assets between Petrobras and YPF worth US$ 500 million. That exchange gave to each company, access to the downstream sector of its neighbor, which helped to foster the notion of the common market fostered by the Mercosur.\textsuperscript{650} But clearly, Petrobras had more to gain from that than YPF. The Brazilian company had hoped to expand its retail and refining activities to Argentina for quite some time, and now the opportunity was finally there. YPF had no presence in Brazil up until that point. On top of that, it represented the chance to engage the Brazilian company even more in exploration and refining activities in Argentina, which was seen as one of the most promising oil markets in South America.\textsuperscript{651}

But the story of Petrobras under the Fernando Henrique Cardoso and Joel Renno duopoly was not immaculate. As very often happened in the company’s history, scandals and controversies always emerged when the situation seemed to be most favorable. By late 1996, Paulo Fran-
cis, one of the most influential Brazilian journalists, made several accusations against the Petrobras board on his weekly talk show for GNT, a Brazilian cable channel. His accusations were rather inchoate, but he clearly charged that Joel Renno and other Petrobras executives had secret bank accounts in Switzerland. The money in those accounts stemmed from overpriced deals for Petrobras infrastructure.652

Francis was widely known as a polemist whose opinions were often dismissed due to his use of flamboyant rhetoric as a tool that enhanced his public persona. That personality trait, added to the fact that he had been a longtime detractor of all Brazilian state companies, including Petrobras, would not have brought more than a sigh from other Petrobras executives. Perhaps as a result of their own immense struggles to reform Petrobras and the siege mentality that this had created, Renno and the board decided to sue Paulo Francis in a New York court.653

In the suit, Joel Renno and the board demanded from Francis US$ 100 million in compensation, well beyond the kind of money he had access to.654 With his source unwilling to go public and confirm the story, Francis was left with no way out. Even president Cardoso himself, who had known Francis’ style for decades, tried to persuade Renno to cease the legal action.655 But Joel Renno was adamantine, and wanted to see the suit pursued until it yielded a clear result. After months of severe stress, with the trial approaching Paulo Francis suffered a fatal heart att-

653 Idem.
654 Idem.
tack in his apartment in New York. The impact of his death on public opinion was so significant that people really started to wonder whether Francis had actually been right about Petrobras.

What nobody could ever have expected was that Francis would have been partially vindicated by accusations carried forth by the Brazilian judiciary in the “Car Wash” operation that started in 2014, an investigation into how money had been diverted from Petrobras to political parties and shadowy political operatives.656 One of the main operatives at the oil company that was implicated was the former executive under Lula administration, Senator Delcidio do Amaral (PT-MS), who decided to cooperate with the Curitiba Federal Court in this investigation. During his long testimony, made public by the Brazilian Supreme Court in February 2016, there was evidence of corruption that extended into Renno’s tenure as president.

The core of accusations pertained to the relationship between Petrobras and a small oil services company named Maritima, controlled by German Efrovitch, who currently owns Avianca, Colombia’s legacy airliner. According to Senator Amaral, Maritima inexplicably beat other larger and more capable service suppliers to build the platforms P-35, P-36 and P-40, all of which were vital to Petrobras’ strategy to develop the giant fields of Marlim and Roncador. Both platforms finally became ready after severe delays and running US$ 200 million over budget.657

656 Operation Car Wash (Operação Lava Jato) is an investigation being carried out by the Federal Police of Brazil, Curitiba Branch, and judicially led by Judge Sérgio Moro since March 17, 2014. Initially a money laundering investigation, it has expanded to cover allegations of corruption at the state-controlled oil company Petrobras, where it is alleged that executives accepted bribes in return for awarding contracts to construction firms at inflated prices. This criminal “system” is known as “Petrolão - Operation Car Wash”. The operation has included the enforcement of more than a hundred warrants for search and seizure, temporary and preventive detention and coercive measures, with the aim of ascertaining a money laundering scheme suspected of moving more than 10 billion Brazilian reais (approx. USD 2.8 billion).
657 Each platform had the original price tag of US$ 400 million.
This could have been merely an unfortunate accident where Petrobras made a mistake in picking an incompetent supplier, if not for the fact that the same mistake was repeated over and over again between 1996 and 1998.

Another odd deal made by Petrobras and Maritima during Joel Renno’s tenure was the contract for the leasing of probes for drilling in the continental shelf. The lease of these probes cost US$ 80,000 per day, and they were theoretically supposed to operate at a depth of 1200m. In the open auction to determine the supplier, Petrobras stated that it needed the probes in 18 months, a deadline that was considered unfeasible by the oil industry. However, Maritima affirmed that it could deliver the probes by the date set by Petrobras and it won the bid.\(^{658}\)

What followed was another delay by Maritima, which was able only to deliver the probes in 30 months, even later than what was considered to be normal by the oil industry’s standards. Petrobras not only forgave Maritima, but it changed the original contract under which the auction was held. Petrobras said that now it needed probes for 1500m, instead of the previous 1200m, as if they were seeking to justify the delays on the part of Maritima. According to Senator Delcidio do Amaral, the mistakes made in the operation cost Petrobras “millions” in delays and legal fees in London and New York seeking compensation from Maritima.\(^{659}\) It was clearly a terrible deal for Petrobras. Delcidio Amaral did not personally implicated Joel Renno in any direct illegal act, although he implied that the “political support” of Joel Renno during the course of the Cardoso administration made it impossible for any further investigation or even a simple inquiry to take place.

\(^{659}\) Idem.
Only time will tell if the current investigation on Petrobras will unveil more suspicious transactions during Joel Renno’s tenure at Petrobras or if he should be hold personally responsible. From Delcidio Amaral’s testimony there is clear evidence of waste, inefficiency, and questionable corporate practices. Senator Amaral clearly implied that Joel Renno and German Efremovitch had a “special relationship,” but he did not offer any clear evidence of that, and no official charges were made against Joel Renno or the Petrobras board from his tenure by the Car Wash operation.

The crux of the issue here is that despite all of the undeniable progress made by Petrobras during Cardoso’s first years in office, old habits did not easily disappear. Despite all of the attempts made by the Cardoso administration to modernize Brazil and its oil industry, the president was consistently obliged to deal with the old Brazil, clientelistic and reform averse. The new oil law was certainly a game changer, but to thrive it needed in an environment where the modern and the traditional were intrinsically connected. Petrobras was the very embodiment of the contradictions of the modern Brazil that the sociologist was trying to build.

4.6 Twisted Logic - Oil Policies During the Second Cardoso Term

From 1994 onwards, the Real Plan and President Cardoso managed to survive several challenges at home and abroad. After facing fierce opposition against the proposed reforms, Cardoso had to deal with two speculative attacks against the emerging markets that threatened to
destroy the solvency of the new currency still in its infancy. Under the guidance of the finance minister Pedro Malan and his team, the government proved to be quite flexible and precise in its response to these crises. Rescue packages were set with the IMF, the width of the floating peg to the US Dollar was expanded and inflation managed at a low level. The Brazilian Real thus survived its first five years.

Despite all of the polemic brought about by the new oil law and the Francis affair, by 1998 the Brazilian oil market was thriving. Domestic oil output had increased by almost 400,000 bpd since the inception of the Real Plan and investments from foreign oil companies in Brazil went from nothing in 1993 to US$ 2 billion in 1998, right after the approval of the new oil law. Refining capacity that had been idling since the early 1980s was finally upgraded and the need for petrochemicals due to the expansion of the economy was also finally taking off. Despite all of these respectable achievements, the story of the oil industry in Brazil during the second Cardoso administration remained a troubled one.

The fact that Petrobras had to adjust to a new environment of fierce competition after the loss of the monopoly on oil exploration and production within Brazil put the company’s board under huge pressure. This pressure made the company prone to mistakes, and those mistakes took a toll on Petrobras’ public image. From 1998 to 2002 economic growth stalled, which made

diminished the appetite for reforms in the congress, and limited the leverage of the Cardoso administration over elected representatives. Ultimately, Petrobras became a symbol of how the Neoliberal order had “failed” in Brazil.

In 1998, the Cardoso administration had ordered a comprehensive analysis of the Brazilian oil market, so that they could understand how the changes that were about to come with the new regime under the National Oil Agency. Cambridge Energy Research Associates Consulting (CERA), one of the leading companies in oil industry analysis, was employed to undertake the task. The findings brought by the report can provide us with a clear picture of the Brazilian oil market of the late 1990s. The report pointed to the fact that Brazil’s proven reserves were three times larger than Argentina’s, but Argentina was receiving more than the double of foreign investment.  

The main question was: where was Brazil was getting it wrong? 

The 200-page report thoroughly described the Brazilian oil market in detail and compared its policies to those being implemented by Latin American neighbors and the United States. The analysts from Cambridge Energy Research Associates pointed out that the main cause of Brazil’s lower investment rate when compared to Argentina was its arcane tax system, one that essentially penalized foreign investors in the oil sector. Despite the fact that Brazilian royalties were lower than Argentina’s, indirect taxes in Brazil were much higher.

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665 Idem.

666 Import Tax + Excise tax (IPI) + ICMS (VAT) + Confins/Pis (Financial transactions) was the overall tax burden imposed on foreign companies that were exploring oil in Brazil. It was considered by Cambridge Associates the highest in the world.
The cascade of federal, state and municipal taxes very often caused the oil companies in Brazil to have lower margins of profit than in Argentina or the United States. It should be a priority of the government to approve a new tax regime for the oil industry, one that could avoid double or even triple taxation on essential oil equipment. In all of the consultants’ forecast scenarios a change in the royalties system would lead to increased investments in the R&D sector that could reach as much as US$ 8 billion in 2005.\textsuperscript{667} In the exploration sector, investment was expected to soar from US$ 800 million in 1998 to US$ 1.4 billion by 2010.\textsuperscript{668}

The numbers were clear, the Brazilian oil market had impressive potential for growth, but regulations had to be quickly changed. Nevertheless the Brazilian congress was showing little appetite for further reforms after the cascade that had followed Cardoso’s inauguration in 1995. Each new reform proposal presented to the legislature faced fierce resistance from the opposition and the interest groups that were affected by those changes.\textsuperscript{669} Moreover, the Cardoso administration lost a lot of political capital after the struggle to approve of the Reelection Law and the death of its two best negotiators in the Congress, Sergio Motta and Luis Eduardo Magalhaes, both of whom passed away in 1997.\textsuperscript{670}

The federal government was also afraid to lose revenues in the short term. In its deal to secure the IMF rescue package after the Russian crisis in 1998, the Cardoso administration had to agree to large primary surpluses on the budget. That put the government in a tight spot: as

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much as it recognized that the Brazilian tax regime was dreadful, it was forced to increase taxes in order to improve its cash flow.671

Given the needs faced by the Cardoso administration, only piecemeal tax reforms for foreign investors were implemented, mainly consisting of bilateral treaties to avoid double taxation. Perhaps surprisingly, foreign investment in the Brazilian oil and gas markets soared between 1998 and 2002, with one specific project in 1999 between Petrobras, Halliburton, and Brown & Root accounting for US$ 4.5 billion.672

The contract involved the construction of three platforms for the Barracuda and the Cabiunga fields, plus the servicing and placement of those platforms in the Campos Basin. The project was a perfect example of how Brazil could benefit from globalization. The platforms were to be built mainly in Brazil, but were also partially assembled in Singapore. Financing came from Japan, where the Japanese Eximbank, Mitsubihi and Mitsui financial arms would be responsible for providing the US$ 5 billion necessary to complete the project.673

Halliburton’s CEO David Lesar presented the project as the first foray of the company into Brazilian market, and a very important one. Lesar believed that the Brazilian economy was poised to grow in the early 21st century and that the country would certainly need to invest in the Campos Basin in order to expand its domestic output.674 The deal with Halliburton also benefitted the Cardoso’s administration, since investments in the Brazilian shipbuilding industry carried forward by Halliburton’s subsidiaries would be meaningful for the first time since the late

672 David Lesar; Fernando Henrique Cardoso; Henri-Philippe Reichstul; Rodolpho Tourinho; Ronnie Vaz Moreira. Briefing extraordinário, Brasília (DF), 2000 (presumida). IFHC: Código: 10/0000249-006
674 Idem.
1970s. The new project helped Cardoso in defend charges that he was a “neoliberal,” a label that the opposition had applied to the president to great effect. Now the president wanted to be seen as a man who was focused on fostering industrialization, not destroying it through free trade agreements.

In order to achieve the impressive growth in the domestic oil output of the late 1990s, Petrobras went through a technical revolution, as described by Tyler Priest and Jose de Morais. Given the fact that Petrobras was now exploring at greater water depth (between 1500 m and 2000 m), the challenge of a hostile environment added to safety issues, obliging Petrobras to cooperate even more with foreign service suppliers and oil companies.

The springboard to that scientific/technical effort was the PROCAP project (1986), which brought together foreign and domestic suppliers, the CENPES lab and Brazilian federal universities. PROCAP 2000 (1992-1999) was instrumental in establishing a series of technologies that were pivotal to extracting oil from very deep waters. One vital piece of technology was developed in a partnership between CENPES lab, the Imperial University of Russia, Statoil (Norway) and Norsky (Canada) where Petrobras developed its own horizontal drilling technique, which

676 David Lesar; Fernando Henrique Cardoso; Henri-Philippe Reichstul; Rodolfo Tourinho; Ronnie Vaz Moreira. Briefing extraordinário, Brasília (DF), 2000 (presumida). IFHC: Código: 10/0000249-006
was used for the first time in the Albacoara field in 1992. Petrobras horizontal drilling was also instrumental in the effective exploration of the giant Roncador field.\textsuperscript{678}

PROCAP 2000 was also important in the development of a series of technologies that helped Petrobras build platforms that were up to the task of extracting oil in a rougher environment. Thermal isolation for the long-range wells was a vital piece in the ultra-deep oil exploration. The “Pig-foam” technique combined with a Nitrogen Generator System (SGN) solved the problem of frozen pipelines at greater depths. In its new platforms, Petrobras was using a high-flow well, which was one huge well instead of several smaller wells, such technique being cheaper and more effective. Petrobras also started using under-balanced drilling, which improved the longevity and productivity of the well.\textsuperscript{679}

The structure of Petrobras platforms saw significant changes during the 1990s, when the company developed the so-called “Victoria-Regia” platform in partnership with Gotaverken Arendal, a renowned Swedish shipyard. Conoco and the MIT worked in tandem with Petrobras and Gotaverken Arendal to adapt the new platform to the Brazilian environment, with great success. A Submarine multiphase pumping system (SBMS 500) started being used in 1992, produced in partnership with Bornean Pumpen (Germany). A more advanced version of the pump was manufactured in 1996 by a consortium integrated by Leistritz Pumpen (Germany) and Westinghouse. In 1997 full scale production of the pump was started by a consortium composed of Westing-

\textsuperscript{678} Idem.
\textsuperscript{679} Idem.
house, Pirelli, Kvarner (Norway), and Tronic (UK), and it became standard equipment for the offshore oil industry.  

If the PROCAP 2000 was a great endeavor, PROCAP 3000 was even more ambitious. Started in 2000, PROCAP 3000 involved 80 projects of R&D, which was expected to involve more than 18,000 companies and annual investments of R$ 37 billion until 2007. The efforts to explore the Roncador and Jubarte offshore fields were at the center of this colossal effort by Petrobras and its suppliers. Despite some economic instability faced by Brazil between 2001 and 2003, PROCAP 3000 was able to expand exploration activities and increase the level of cooperation with foreign partners.  

Under the aegis of the PROCAP 3000, Petrobras’ semi-submersible platforms projected at the CENPES lab and built in Singapore used a wide array of state-of-the-art technologies, such as the shared actuator manifold and flexible risers for ultra-deep waters. More than 200 Brazilian scientists from CENPES lab and University of São Paulo (USP) combined efforts and projected new floating platforms (MONO-BR and FPSO-BR).  

By the early 2000s, the town of Macae (Rio de Janeiro state) was one of the largest research hubs for offshore oil in the world. In order to provide services for Petrobras and its partners in exploration (Shell and Statoil), a range of suppliers installed research facilities and industrial complexes in Brazil. Global heavyweights in the service business for the oil industry, like Halliburton, Brown & Root and Schlumberger installed sizable facilities in the Macae area.

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Old arguments about the nefarious presence of foreign oil companies in Brazil, like those carried forth by Jose Mattos Dias, Ana Quaglino and Jaime Rothstein. These changes in the Brazilian oil industry during the 1990s seem to refute.\textsuperscript{683}

The intense cooperation with foreign partners again proved to be a springboard to Petrobras instead of a hindrance, as proposed by these authors. This is in consonance with Tyler Priest and Drielli Pyerl, who have also argued for the importance of foreign partnerships to the development of the oil industry in Brazil. The data presented here suggests a continuity of the pattern presented by Priest and Pyerl. The relationship between Petrobras and foreign partners is not a zero-sum game, where both benefited and allowed Brazil to achieve technological strides that would have taken much longer if only domestic capabilities had been used.

Finally, the technical progress achieved by Petrobras and its partners in tandem with a stable macroeconomic environment allowed Brazil’s foreign oil dependency to fall from 50\% in 1994 to 5\% in 2003. The Holy Grail of oil self-sufficiency was not achieved in isolation from the outer world, as Petrobras creators thought it would. It was rather achieved by an intense cooperation with foreign nations, supported by a more flexible regulatory framework, which allowed the Brazilian oil industry to fulfill its potential.

Overall, the Petrobras-Halliburton deal signaled a trend of increased participation on the part of foreign companies in the development of the Brazilian oil industry. This trend would continue to grow after 2003 under the rule of the Worker’s Party. Brazil was essentially reaping the

Dias, José Luciano de Mattos, and Maria Ana Quaglino. 1993. A questão do petróleo no Brasil: uma história da PETROBRAS. [Rio de Janeiro, Brazil]: CPDOC/SERINST, Fundação Getulio Vargas  
first fruits of continued stability and opening to foreign capital. At the same time the rhetoric was in clear contrast to the 1970s and 1980s, when a statist and patriotic mood had prevailed. Despite vociferous opposition from the left, there was not an outcry of public opinion against foreign investment in the oil industry, as had happened in the past. Foreign investments and cheap imports had become such a ubiquitous presence in Brazilian economic life that these reactions were seen as a thing from the past.

Amidst an environment of relative optimism, Joel Renno stepped down as Petrobras president in early 1999. Despite all of the controversy, Renno’s tenure as Petrobras’ president was one of the most successful in the company’s history, side by side with Ernesto Geisel and Shigeaki Ueki. The task of finding a proper substitute was not an easy one, but the government settled with the part French, part Brazilian economist Henri-Phillipe Reichstul. The new Petrobras president was an accomplished graduate of Oxford University, but not an oil industry veteran like Renno. In the anti-neoliberal mood that pervaded the opposition in the late 1990s, Reichstul was a character perfectly suited for hatred: a foreigner, an economist trained in Thatcherite Britain, and an advocate of free markets. This combination of factors left him with little margin for error.

From 1998, the National Oil Agency (ANP) controlled the Brazilian oil industry. With that major change, Petrobras was no longer guaranteed the inside line when it came to exploring new oil fields. With the passage of the new oil law in 1995, Petrobras had to be ready to face fierce competition from the oil majors on its own turf. Reichstul was under great pressure to do more with less. The results of that approach carried forward by the Cardoso administration were disastrous. The essence of that period at the turn of the century was epitomized by the explosion and sinking of platform P-36 in March 15th 2001, the largest in the world. The expansion of do-
mestic exploration in the prolific fields of Marlim, Barracuda and Roncador in the Campos Basin obliged Petrobras to invest more in offshore platforms in order to expand domestic output.

However, given the rush to compete with the majors that were now present in Brazil and the need to supply its domestic market, Petrobras was putting emphasis on output and letting other technical issues aside. The result, as was the case with P-36 in 2001, was that poorly executed planning and security procedures caused the platform to explode and then sink at a cost of US$ 360 million to the oil company.684 The official accident report by ANP left no doubt about a series of mistakes made by Petrobras and how the company desperately needed to review its engineering, security, and maintenance procedures.685 The explosion of P-36 completely demoralized Rechstul and Petrobras only one year after an oil leak in Guanabara Bay (Rio de Janeiro) also affected the ecosystem of the region and exposed Petrobras to charges of corporate malpractice under Rechstul’s command.686

Petrobras undertook a serious operation in damage control as the government realized it needed to change its approach. The first measure was the substitution of the “toxic” Rechstul with a veteran executive of several state enterprises, Francisco Gros. Petrobras also increased its budget for environmental control and disaster prevention through Operation Pegaso. This was a comprehensive policy that would raise Petrobras’ environmental profile through “intelligent pipelines,” investment in the automation of all parts of the businesses, an increase in quality by

685 Idem.
achieving “ISO” seals in different areas, and closer cooperation with the Brazilian environmental agency (IBAMA).  

Despite the huge mistakes made during the Reichstul’s tenure, it would be inaccurate to make him the scapegoat for all of Petrobras’ woes between 1999 and 2001. It is important to emphasize that the “more with less” approach had been less well entrenched since the latter days of the Renno administration. Criticisms made of Petrobras planning and security issues made by the ANP report relate to events that dated before the beginning of Reichstul’s tenure in 1999. It has often been forgotten that under his administration Petrobras made the discovery of a new giant field in the Santos Basin (Sao Paulo), which became one of the most prolific offshore fields on the Brazilian coast, explored jointly by Petrobras and Shell. Moreover, Reichstul undertook a historic and comprehensive restructuring of Petrobras whereby the company was divided into four core areas. Those changes made the company more agile and helped it to become more efficient and profitable over time.

Another important element of the Reichstul administration was the rebirth of Petrobras’ participation in international exploration and retail. In that sense, there was a reenactment of the partnership with Itamaraty, as had been the case in the 1970s. Major initiatives were carried out in Argentina, Angola, Norway and Venezuela. By the year 2000 Brazil’s oil output was covering

687 Idem.
more than 70% of its domestic needs, whereas in the 1970s it had only accounted for 10% of domestic consumption. Therefore, foreign deals were much less important than they had once been. These deals were now important to the global development of Brazil as a corporate powerhouse in Latin America and of Petrobras as a company with a broader international profile.

The attitude of the Brazilian foreign office was also different this time, operating according to the concept of the “logistic state.” The Itamaraty was not supposed to be a pivotal contributor to negotiations with other oil companies, nor suggest which deals Petrobras should or should not take. Its role was much more as an intermediary and eventual assistant in deals, only acting where the need became evident.

Oil deals with Argentina had been expanding since 1993, after the opening of the Argentine market strengthened under President Carlos Menem. Argentina became an important foreign oil supplier to Brazil as oil became a vital aspect of the broader trade partnership between both countries under the aegis of Mercosur. By 1999, the Spanish oil company Repsol had secured

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693 Brazil production was 1.2 million bpd by the year 2001, crude barrel on average in the year 2000 was US$ 27.35 and Brazil’s domestic oil consumption was 1.6 million bpd. Sources: Republica Federativa do Brasil. Ministerio das Minas e Energia. 2005. Boletim Energetico Nacional. McMahon, Tim. “Historical crude prices.” inflationdata.com. Last modified on May 1st, 2015. Url: http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp
a position as major shareholder of YPF, the largest oil company in Argentina. This came at the end of a decade in which Spanish investments had increased rapidly in the energy and telecommunications sectors in Latin America where they were seen as strategically valuable by the José María Aznar premiership.

Since the Cardoso administration had a good relationship with both countries, this new turn of events helped Petrobras Argentina to consolidate itself within the Argentine market. The Argentine government did not present any obstacle to Petrobras launching major retail operations under its “EG3” brand. In 2002 Petrobras also acquired the second largest Argentine oil company, Perez-Companc. This new acquisition would give Petrobras the presence it needed in all stages of the oil business, with investments that reached more than US$ 1 billion until 2005. As Petrobras President Francisco Gros affirmed: Petrobras was in Argentina for the long term.

Brazil had been close to the Norwegian oil industry since the early 1980s when the Petrobras subsidiary “Brasoil Norge” became a respectable service supplier for the Norwegian state oil company, Statoil. The Brazilian presence in Norway lasted until the early 1990s when, during one of its several financial crises, Petrobras decided to retire from this particular mar-

697 Idem.
698 Idem.
By the late 1990s, President Cardoso had developed a good relationship with Norway’s Prime Minister Kjell Magne Bodevik. The result of that relationship was that it was now Norway’s turn to invest in Brazil. Some import oil agreements were set in those meetings, where the Prime Minister assured Cardoso that Norwegian investments were underway.\(^{700}\)

At the dawn of the 21st century, Statoil became one of the most important investors in the Campos basin, establishing a solid partnership with Brazil in that field.\(^{701}\) Another important partnership that was restored was with Angola, where presidents Fernando Henrique Cardoso and Jose Eduardo dos Santos in 1996 signed an agreement that resolved Angola’s debt with Brazil of US$ 450 million, a pending issue from the 1980s. With the solution of that issue, Braspetro restored its investments in Angola with the exploration of offshore Bloc II.\(^{702}\)

Investments in the Angolan oil business was seen as only the spearhead for Brazilian construction companies and manufacturers. In that sense, the fact that deals between Petrobras and Sonangol were resumed was important to the expansion of trade between both countries and allowed Brazil to establish a foothold in Africa once again, a part of the world that had been forgotten by Cardoso’s diplomats during most of his first term in office.\(^{703}\)

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commerce-oriented logic were Petrobras’ deals with Venezuela, where a major change in power took place with the ascendance of Hugo Cesar Chávez Frías. This presented a different challenge to the centrist Rafael Caldera, to whom Fernando Henrique Cardoso felt personally attached. On the other hand, Hugo Chávez was a leftist firebrand who promised nothing less than a socialist revolution in Venezuela, a clear distinction from the centrist Cardoso administration.

During his first term in office, president Cardoso and chancellor Luiz Felipe Lampreia made trade with Venezuela one of his priorities.704 Deals that mainly involved the trade of Venezuelan crude in exchange for Brazilian agricultural and manufactured products blossomed, with Brazilian trade with Venezuela reaching US$ 1.5 billion in 1999 from less than half of that in 1995. The arrival of Chávez made the Brazilian government wary, but despite his radical Marxist and nationalistic rhetoric, President Cardoso wanted to move ahead. In fact, this situation was seen by the Brazilian diplomatic corps as both a strategic and an economic opportunity. It was thought that Brazil could act as an intermediary between Chávez and the United States, and enhance the trade between both countries in the process.705

It was an interesting display of pragmatism on Cardoso’s part. In the end, deals were established and Cardoso and Chávez developed an unlikely cordiality between one another as Petrobras signed a comprehensive deal with PDVSA during the Brazil-Venezuela summit in 1999. Petrobras even opened a new office in Caracas, and the Brazilian company hoped that

Chávez would not limit the expansion of PDVSA, something that he had hinted he could do during the 1999 presidential campaign. Against all the odds, Petrobras’ deals with PDVSA evolved under Chávez, which marked the consolidation of Venezuela as an important trade partner, vindicating the strategy set out in 1995.

Another area worth mentioning is the record of Petrobras’ international arm (Braspetro), which performed impressively during Cardoso’s tenure in office. Investment rose from US$ 119 million in 1995 to US$ 360 million by 1999. The Petrobras subsidiary was doing business in 14 countries and expected earnings of US$ 6.9 billion in 1999, up from US$ 1.6 billion in 1993. Braspetro, in a repeat of the early 1970s, was proof that when Brazil was economically organized and Petrobrass given the conditions to compete, the company could perform well abroad.

Braspetro’s activities marked a strong return for the company in markets where it had previously had strong commercial operations. Braspetro was actively exploring oil fields in Nigeria in the Bloc OPL-216, in tandem with Exxon Mobil and Shell. Offshore exploration in the Gulf of Mexico, Cuba (Bloc 1), the North Sea (UK), and Colombia were the highlights of the 1999 annual report and one of the main causes behind an impressive increase in earnings. By 1999 Braspetro was associated with another 83 companies in the oil sector under 146 different contracts, all of which were boosted by a Petrobras that was receiving US$ 35 billion in gross earnings. From a stronger financial position, Petrobras was poised to compete abroad against

706 Idem.
708 Idem.
709 Idem.
other oil companies, which was a major accomplishment for the new vision of the oil market implemented by the Cardoso administration.

The strength of the Brazilian oil market during the early 2000s was evident during the auction of 34 offshore oil fields, made by ANP during 2001. Brazil now had more than 20 foreign oil companies investing in oil exploration in Brazil. Oil and gas prices were now regulated by the market, with the Petrobras price set as the benchmark.\textsuperscript{710} The refining sector was also much more dynamic after several subsidiaries of Petroquisa, Petrobras’ refining branch, were privatized. And above all, domestic oil output rose from 718,000 bpd in 1995 to 1.5 million bpd and Brazil’s foreign oil dependency rate fell from 85\% in 1979 to 10\% in 2003.\textsuperscript{711} This is impressive and clear evidence of the change brought by the new oil law implemented in 1997.

Tyler Priest was able to capture the essential contradiction that involved the creation of the ANP, where in spite of the fact that the agency represented the opportunity of a level playing field the auctions for the Brazilian offshore fields, it was too small not to succumb to political pressure. Ultimately, the president and the energy minister were the final regulators and arbiters, obliging the foreign oil companies to seek Petrobras as the only way of accessing the Brazilian oil fields.\textsuperscript{712}

As seen here, Petrobras was still far from perfect. Corruption charges and accidents were still typical among Brazilian state enterprises. After several share sales by the government during


the 1990s in order to capitalize the oil company, the federal government held only 51% of the 
shares, the bare minimum to keep its majority stake.\textsuperscript{713} Above all, for the first time in Brazil’s 
history oil output and the macroeconomic cycle were in synchronized in a positive cycle that 
helped to keep inflation low while fostering economic growth, which allowed for the long term 
economic gains of the 2000s.

The achievements of the Cardoso administration in the oil sector were more recognized 
abroad than at home, where people unfairly characterized Petrobras under his tenure as a time of 
chaos and lack of progress. The gains made by the Brazilian oil market from 1995 to 2002 were 
acknowledged by the oil industry when for the first Brazil hosted the World Petroleum Congress 
in Rio de Janeiro in 2002.\textsuperscript{714} The fact that the oil industry’s most important gathering was held in 
Brazil for the first time showed how important and promising the Brazilian oil market had be-
come at that point, but also said something about Brazil’s improved standing in the global mar-
kets and the rebirth of Rio de Janeiro as a global hub.

With macroeconomic stability, the opening to foreign investment and a clear regulatory 
framework, companies from all over the world were interested in the Campos basin’s riches. For 
Brazil, the prize was not only more oil for its domestic market. The impressive expansion of the 
oil industry in Brazil meant jobs, investment and the incremental growth of advanced technolo-
gies within the industry. In sum, the promise of development did not materialize under a monop-
olastic autarky; it became real under a modern, regulated free market environment.

\textsuperscript{713} Hira, Anil and Pierre-Oliver Pineau. “TURNING PRIVATIZATION UPSIDE DOWN: PETROBRAS AS AN 
EXAMPLE OF SUCCESSFUL STATE CAPITALISM.” Canadian Journal of Latin American & Caribbean Stud-
\textsuperscript{714} Francisco Gros and Joao Carlos de Luca para o Excelentissimo Senhor presidente Fernando Henrique Cardo-
Petrobras was born out of necessity. A necessity that was decided by a few who could grasp what economic development meant in a country that was mainly rural and illiterate. After World War II, Brazilian elites had decided they should pursue the path of high-efficiency capitalism at any cost. The majority of its civilian and military elites were impressed by the economic prowess that had allowed the United States to win the war. Brazilian elites were appalled by what was seen as a reality check, a moment where they realized that a country that was as large and with as much promise as Brazil had accomplished so little up to that point.

As a result of this the main drive behind the actions of Brazilian authorities for the last seventy years has been to push Brazil towards the goal of becoming a developed capitalist nation. It quickly became evident that if industrialization was the path towards the ultimate prize, energy was a major potential limiting factor. By 1945 Brazil was still largely a country focused upon agriculture that used firewood as its main energy matrix. For the federal government, it became urgent to foster modern sources of energy, sources fit for high-efficiency capitalist production. This explained the importance of electricity and oil.

It was this thirst for energy that led to the creation of Petrobras. If the oil majors would not invest their resources into developing a mature oil sector in Brazil, the country would have to do it on its own. The drive towards industrialization, nationalistic feelings and the Cold War context also played a part. In the O petroleo e nosso campaign (the oil is ours) that culminated with the creation of the national oil company in 1953, one dominant aspect of Brazilian development was already evident. Good will and improvisation often overcame the importance of strong institutions and careful planning.
Petrobras was born without a clear blueprint guiding how it would explore oil and how it would finance its activities when the gasoline tax created to cushion its operations surpassed its planned budget. But, for the political elites behind its creation, excitement and nationalism were enough. This pattern was not only present in the creation of Petrobras, but was responsible for the creation of all other state enterprises.

In the minds of the Brazilian political elites and policymakers, the creation of giant state enterprises seemed to be the only way to yield fast economic growth. Since the country had no time to create a General Electric, US Steel or Standard Oil, it was the government’s duty to create its Brazilian equivalents from scratch. As the easy phase of import substitution industrialization started to bear its first fruits and the citizens of the largest Brazilian urban centers started to taste a glimpse of more advanced consumption patterns, the great push seemed to be working. And with that, the need for oil only increased, putting extra pressure on Petrobras to immediately find the resources so vital to the nation’s development.

By the 1960s it had become evident that the road towards high-efficiency capitalism would not be an easy one. It also became evident that Petrobras was unable to fulfill the expectations of its supporters, finding oil in Brazil proved to be an expensive and tricky business. As disappointment mounted over the growth of inflation and lack of direction under presidents Janio Quadros and Joao Goulart, the public debate failed to focus on question of whether such a fast paced push towards industrialization was correct and if Brazil’s culture, society and institutions could cope with such a sudden change. All of these important factors that were prerequisites of a healthy society were simply left behind, leaving a fight between state capitalism and free market capitalism within the context of the Cold War that culminated with the military coup in 1964.
The winners of that coup knew exactly the course they wanted to follow. Men like Castello Branco and Roberto Campos were willing to take Brazil on the path of an unconditional alliance with the US and a free market oriented model of development. Once again, the debate on institutional development only came as an afterthought. For Petrobras, it meant an important stage of reconstruction after the years of mismanagement under the developmentalist administrations that ruled Brazil before the 1964 coup. The military were willing to transform Petrobras into a pivotal tool, one that could finally deliver on its promise of providing Brazil with cheap oil that would facilitate its industrial development.

Subsequent to the rule of Marshall Castello Branco (1964-1967) it became clear that the unconditional alignment with the US was not bringing the results that were expected and middle class support for this alliance was drifting away. In an amazing turn of events, the military decided to increase political repression and opted towards a more nationalistic approach towards economic development. Favorable conditions abroad attached to demand-side economic measures at home were able to create an impressive growth in the rate of GDP from 1968 until 1973, in what was known as the Brazilian Miracle. For the military junta, things were going fine as long as the economy was growing and industrializing, and since nobody was able to scrutinize the regime’s policies, the true economic nature of the Miracle was not questioned until it crumbled.

During the command of Ernesto Geisel and Shigeaki Ueki from 1969 until 1985, Petrobras faced one of the most contradictory periods in the company’s history. Due to the great offer of foreign credit, Petrobras was able to expand its activities in all areas of the oil business. Despite the fact that the company matured and started the exploration of the prolific Campos
Basin (Rio de Janeiro), its domestic production was meager. Meanwhile, Brazilian consumption of foreign oil jumped from around 400,000 bpd in 1970 to 960,000 bpd by 1979.\textsuperscript{715} That imbalance between the growing economy and oil dependency became a huge burden during both of the Oil Shocks of the 1970s (1973,1979).

The oil shocks became an easy scapegoat for the military’s failure to sustain economic growth and spread it out to those with lower incomes. In that process, Petrobras was also blamed in the public eye for its failure to supply the country with cheap oil. The average Brazilian could not understand that the task of exploring deep offshore oil with 1970s technology was an impossible mission. It would take time and resources to accomplish the goal of developing the Campos Basin. But the military could not wait; they needed more oil to pursue their own dreams of development. Their logic was very simple: if they did not have money or oil, they would obtain both from foreign sources.

When the conditions to perform such a complex macroeconomic balance ceased to exist after 1973, General Ernesto Geisel opted for even more state borrowing. His fateful decision resulted in an impressive growth in Brazil’s foreign oil demand, nailing the country to a cross of oil. As had been the case since 1945, the focus of the Brazilian political elite remained on the macroeconomic aspects of fostering a fast paced industrialization. The insistence on buying massive quantities of foreign oil was only one of several misguided economic policies executed by the military regime. The insistence on heavy foreign borrowing, an indexed economy, the lack of inflation controls and budgetary deficits eventually caused the downfall of the Brazilian junta’s great experiment.

Some might say that the price tag for the pursuit of high-efficiency capitalism was the US$ 92 billion owed by Brazil in 1983. It went far beyond that. The chaos generated by the unchecked urban sprawl fostered by the military, 15 years of high inflation, and the environmental destruction of the Brazilian biota were only some of the consequences of the military’s drive to turn Brazil into an advanced capitalist nation. Basic features of a healthy country such as sanitation, basic education and housing were forgotten by the military, who were more preoccupied with industrialization and energy.

Major investments during the 1970s yielded interesting results for Petrobras, especially in the realm of exploration technology and petrochemicals. As had been expected, it took time for Petrobras to explore the Campos basin in full force. When the fields started to produce more than 300,000 bpd by 1980, it was already too late for the Brazilian economy. The country bore the burden of two oil shocks plus the increase in global interest rates that followed the Volcker Shock of 1980. It was at this point when the second great imbalance began. As the Brazilian economy imploded under the weight of debt and inflation, domestic oil output finally started to soar. Petrobras was not immune to these pressures. The company’s oil output was growing, but with the economy stalled, fuel prices were frozen to fight inflation and the fuel market was soon awash with subsidized sugar cane ethanol, bringing Petrobras to its knees. The company struggled to achieve sustained profits and investments, which compromised the quality of its research and its ability to expand exploration in the Campos basin.

Albert Einstein once said that insanity is doing the same thing over and over again and expecting different results. That would be a perfect definition of Brazil’s macroeconomic policies from 1980 until 1993. Brazilian political elites could not think outside of the developmentalist model and did not understand what went wrong. Institutional development was frozen after 20
years of authoritarian rule, and in such a poisonous environment the old sins of clientelism and patrimonialism were well entrenched. While the Brazilian government thought that it was over-spending for the sake of development, it was actually spending to keep traditional political practices alive under the guise of state-led modernization.

In that sense, Petrobras was the embodiment of that phenomenon. It spent most of its budget servicing its debt, and oil output from 1986 until 1993 was virtually stagnant. The company flirted with bankruptcy several times and after each new economic plan its financial situation seemed to be worse. Presidents João Figueiredo, Jose Sarney and Fernando Collor made the same mistake of not attacking the main cause of the Brazilian inflation, which was the federal government’s excessive expenditures.

During the 1980s, the fear of the political consequences of reforming the state machine compromised Brazil’s opportunities to develop at a time when global energy prices were low and Brazilian domestic oil output started to increase. From a purely energetic perspective, Brazil missed a huge chance to make great strides during the 1980s. On top of facing chronic economic troubles, Brazil still had to endure the burden of the 1988 Constitution, which exponentially increased the federal government’s expenditures and cut off any foreign participation in the oil market.

While the new president, Fernando Collor de Mello, talked with eloquence about the need for reform of the Brazilian state and aligning Brazil with more modern trends in the global economy, he was an unlikely character to bring about any such changes. His political career had been built through the use of patronage and clientelistic networks. However, during his first few months in office he was actually willing and able to play the role of reformer. Collor appointed
Luis Octavio Motta Veiga as Petrobras president in order to streamline public administration and restore faith and efficiency to the federal government.

The failure of Motta Veiga to fully implement his reform program at Petrobras and the fact that he quit office after only ten months in office, following huge political pressure to concede privileges to Collor’s friends, demonstrated how traditional institutions were a burden to capitalist development in Brazil. As the Collor presidency was unable to manage hyperinflation and reorganize the state, Petrobras folded once again under the burden of a sinking economy. Its exploration, refining and research sectors were compromised. The company was in debt and privatization seemed the only way out to many experts.

By 1993, life in Brazil was becoming almost unbearable due to the lack of even minimal economic stability. An economic maelstrom transformed urban Brazil into a living hell of violence and poverty as it became clear that the state led development model had clearly failed. Brazil was not an advanced capitalist country and its attempts to become one left behind a legacy of immense human suffering. After several false starts, the interim President Itamar Franco recognized that it was time to drift away from his populist policies and turn to a middle ground that could solve some of the most pressing economic issues.

The *Plano Real* was essentially the recognition that Brazil finally had to face its own problems, especially those which were generated by the mismanagement of the federal government’s resources. The new plan succeeded mainly because of its simplicity and the fact that there was not a confiscation of savings or a price freeze. The Real used common sense market tools and a balanced federal budget as the means to control inflation. The *Plano Real* was also supposed to be only the first step towards a broader set of reforms that in time would be able to fulfill the dream of making Brazil an advanced capitalist nation.
Fernando Henrique Cardoso, one of the architects of the *Plano Real*, became President in 1995. At first he thought he had a clear mandate to implement those reforms. But like the developmentalists and the military before him, the new president soon understood how the roadblocks to reforming Brazil were almost insurmountable. Still in 1995, this became most evident when he attempted to implement the new oil legislation. Since it would spell the end of Petrobras’ monopoly in several areas of the oil industry, it was a highly contentious affair.

As the debate on the new oil law advanced into the Brazilian Congress, opposition became fiercer. A motley crowd composed of labor unions, leftist parties and old-school nationalists stood in complete opposition to any changes in the law, claiming that this represented a “sellout” to foreign interests. Their mindset was still stuck in the ECLAC economic models from the 1960s and their rhetoric was vintage Cold War. Although most of them were well-intentioned people, they could not understand how the world around them had changed and how Petrobras at that point needed a new regulatory framework to actually save the company, not to destroy it.

The peculiarities of the Brazilian political system obliged the Cardoso administration to engage in horse-trading of epic proportions to see the new oil law approved in the Congress. This proved to be the case for all the other reforms carried forth by the Cardoso administration, tarnishing the image of the President and his cabinet with the Brazilian population. But, the new oil law did exactly the opposite of what its detractors said it would do. The increase in competition in the Brazilian oil market obliged Petrobras to restructure itself. As the company was slowly sanitized and its ability to finance itself restored, the exploration of the major oil fields of Roncador and Marlim (Campos Basin) finally became a reality.

Domestic oil output doubled from 1995 until 2003 as the new privatized petrochemical sector was booming with national and foreign investments and Petrobras became a player in the
global oil game. Despite some pitfalls, including accidents and corruption scandals, gains were far greater than the losses. By the early 2000s Petrobras was no longer a burden to the government’s budget but rather a vital source of revenue for the government, even at state and municipal levels as royalties increased.

Even more important was the fact that for the very first time oil and macroeconomics were working together in a positive cycle. A stabilized economy was favorable to the growth of Petrobras and vice-versa, in a classic “win-win” situation where domestic oil supplies finally managed to cope with economic growth. It is also possible to understand why Brazilians still did not have perceive their lives to be actually improving. Urban violence was still high due to the rise of drug trafficking in Brazil and the country still had one of the largest income disparities in the world with life in most urban centers plagued by a lack of basic infrastructure.

In that context, the opposition led by Luiz Inacio Lula da Silva, a former labor leader turned politician, transformed the Worker’s Party (PT) into a political powerhouse. PT was essentially an alliance between unionists, theologians who were advocates of Liberation Theology and Liberal Arts academics. Over time, their discourse surpassed those groups and reached the Brazilian middle class, to whom economic stability was no longer enough. There was a pressing need to address inequality, the low standards of public services and the sheer corruption that had plagued Brazil since the first Portuguese settlers came ashore.

By effectively using a strategy of promising structural reform and economic stability, the PT was finally poised to capture the presidency in 2002. It was a daunting task for the new President Lula and his team to tackle these issues while at the same time proving their credentials to foreign investors who were uneasy about the PT’s radical leftist past. Over time Lula, without doubt a political animal, understood that only by following a balanced strategy that combined
orthodox macroeconomic policies with broader policies of income distribution could he remain in power.

From day one Lula was determined to halt and reverse the shrinking of the Brazilian state. For Lula and his acolytes, the “minimal state” was sinful by its very definition. It represented the epitome of the Neoliberal age, the aura of the “Los Cientificos” and the enshrinement of a new gilded age. It was a pivotal decision, one that had immense consequences for himself and for Petrobras. As the economy started to grow under the aegis of low inflation, a stable currency and the Chinese commodity super cycle, the Brazilian state had more resources with which to expand.

Under the new PT administration Petrobras would have to embrace more projects and play an expanded role in development, especially compared to what had been envisaged by the Cardoso administration. Despite its new role as a key protagonist, Petrobras still had to act within a free Brazilian oil market. Over time it became a clear trend for Lula’s administration to weaken the National Oil Agency and restore the control of Brazilian oil policy under the powerful Energy Minister Dilma Rousseff and Petrobras. Nobody questioned this policy since the economy was expanding and investments in the oil sector were on the rise.

From 2005 until 2010, Brazil’s oil output surged from 1.6 million bpd to 2.1 million bpd.716 As Petrobras’ investments expanded, there was a growth in domestic oil projects, creating jobs and economic prosperity in several corners of Brazil. At the same time, the investments of foreign companies such as Halliburton, Sinopec, Shell and Statoil helped to foster an unprecedented oil boom in Brazil that operated in tandem with a broader positive economic period for 

the country. The PT’s strategy of creating a stronger state-guided Petrobras seemed to have been vindicated, for the time being.

The mistake of empowering Petrobras became evident after the discovery of what were known as “Pre-salt” deep-water oil reserves in the Campos Basin in 2007.\textsuperscript{717} The Lula administration made clear that new legislation would be created so that Petrobras would have the monopoly of the new Pre-salt areas.\textsuperscript{718} Petrobras would require US$ 111 billion between 2011 and 2020 to overcome the technological hurdles associated with the development of these new reserves. Since the price of oil was US$ 79.00 per barrel in 2009 and increasing due to Chinese consumption, it seemed to many to be the deal of a lifetime. Investors abroad had forgotten about the days when Brazil was a bankrupt nation ruled by inept politicians, and heavily invested in the Pre-Salt fields.

Despite the real gains and even greater hype that surrounded the Lula administration, analysts and investors failed to notice one crucial element. The eight years in office had changed the Worker’s party and its leader. Early in his presidency it had become clear to Lula, as it had become evident to Fernando Henrique Cardoso, that they would have to work within the system of graft endemic to Brazilian politics. The forces lined up against institutional change were far greater than those that were willing to promote reform. It was the reversal of the tale of Princess

\textsuperscript{717} 50 billion barrels was the expected reserve, four times larger than the Brazilian reserves in 2009.
\textsuperscript{718} The Pre-salt layer is a geological formation on the continental shelves. It is the geological layers that were laid down before a salt layer accumulated above them during the Gondwana breakup. Some of the petroleum that was formed in the pre-salt layer has not leaked upward to the post-salt layers above. This is especially common off the coast of Africa and Brazil. The amount of oil is not well known but is thought to be a significant fraction of world oil reserves. According to Petrobras, the oil and natural gas lie below an approximately 2000 m deep layer of salt, itself below an approximately 2000 m deep layer of rock under 2000-3000 m of the Atlantic. Drilling through the rock and salt to extract the pre-salt oil and gas is very expensive.
and the Frog, where the prince was turned into frog after the princess’ kiss. Lula fully embraced the needs of the old Brazilian political game, effectively ending some of his lifelong political struggles.

While oil prices kept grew to a peak of US$ 108.00 in 2013 and the Chinese commodity super cycle remained strong, Brazil’s economy and Petrobras did well. From a macroeconomic standpoint, the oil cycle and the economic cycle were still mutually supportive of one other. Brazil’s rapidly increasing oil demand could be met by its domestic supply, a clear result of the 1997 law, which had encouraged Petrobras to develop domestic oil markets in tandem with foreign companies.

Similarly to 1973, changes in the global economic scenario would expose the structural weaknesses of the Brazilian economy. By 2013, under the presidency of Dilma Rousseff (PT), it became clear that the commodity super cycle was fading away as oil prices started to crumble. Suddenly, it became evident that despite some important gains in the distribution of wealth, the country was suffering from severe underinvestment in some pivotal areas.\(^{719}\) Despite more sophisticated consumption, the rise of a new middle class and the expansion of the role of the federal government, Brazilians did not see major improvements in the areas of education, healthcare, basic infrastructure and the policing of urban violence.

By 2012 there were increased rumors that Petrobras was facing a crisis and the Pre-Salt project was under danger of not fully materializing. As cheap US shale oil started to flood the global market by the early 2010s, Petrobras saw itself rendered uncompetitive by oil cheaper

\(^{719}\) Brazil GINI coefficient was 60.5 in 1989. By 2014 was significantly reduced to 52.9. source: World Bank GINI index (World Bank estimate). Last accessed on April 19th, 2016. Url: http://data.worldbank.org/indicator/SI.POV.GINI
than that produced by her complex deepwater project. As shale created the largest oil glut since 1983, Petrobras’ new President Maria da Graça Foster vowed to fight for the Pre-Salt project and to reorganize the company.720

Despite Graça Foster’s initial efforts, Petrobras profits were falling and the future of the Pre-Salt seemed to be more in doubt than ever before. At the same time, lower rates of GDP since 2011 developed into a recession in 2014. As the PT’s model of heavy spending started to show signs of fatigue, the general election of that same year became a highly ideological affair, where the Worker’s Party gained a fourth term by winning the runoff election by just a 3% margin. During the campaign, President Rousseff vowed to continue with the development of Pre-Salt, with Petrobras securely in charge of the whole endeavor, despite the company’s financial woes.

A country whose economy started to falter, that was ideologically divided and with severe structural problems was heading towards a period of turbulence. But, nobody could have anticipated that Petrobras would be at the epicenter of a historic crisis. In March 2014, the “Car Wash” operation was launched under the jurisdiction of the Curitiba federal court. What began as an investigation of money laundering that actually involved a car wash in Curitiba unveiled one of the largest corporate corruption schemes ever seen in the energy industry.

According to the investigation performed by the Federal Justice system, Petrobras money was siphoned off to political parties through overpriced contracts with construction companies and service suppliers. Once the money was in the company’s pockets, it was channeled back to

the coalition’s parties through illegal donations.\textsuperscript{721} Petrobras’ executive positions were “auctioned” by the federal government in return for Congressional support. In this corruption vortex, the peculiarities of the Brazilian political system combined with its lack of institutional development created the greatest political crisis in fifty years and the largest recession since 1930.

For Petrobras, every new finding of the Operation Car Wash diminished the company’s public image. By 2015, Petrobras held one of the largest corporate debts in the world, one that stood at US$ 120 billion, with at least US$ 2 billion the result of the malpractices of the Petrolão (big oily) scheme.\textsuperscript{722} As the scandal started to reach politicians that belonged to the upper echelons of power and as the economic crisis worsened, the inner workings of Brazilian politics were revealed.

Amidst the complete meltdown of the country’s political system, which culminated with the impeachment of president Rousseff in September 2016, some points must be considered concerning the oil industry in Brazil and development as a whole. First, Brazil still has a promising oil market and a decent regulatory framework. Once the present political crisis is over, Brazil could still be able to sustain itself with its own domestic oil supply. It may become an oil exporter if the political crisis is subsides and the price of oil rises. Second, Petrobras’ near future as a viable oil company is in peril and it will take a long time to eliminate the company’s debt and


restore fair corporate practices at its core. The focus must be on empowering its permanent technical core while diminishing the power of political appointees.

As long as the federal government remains as the majority stockholder and needs to exchange seats in the state companies for congressional support, there will be no reverse of the current trend. Despite its formidable technical corps of engineers and scientists, waste and corruption has been the norm at Petrobras throughout its existence. One dissertation is not enough to cover the sheer scale of corporate and environmental malpractices performed by Petrobras for more than sixty years.

Finally, it is important to bear in mind that Petrobras is capable of provoking such strong emotional reactions among Brazilians for what it symbolizes. It is not merely an oil company: Petrobras is the embodiment of the dreams of progress and of the empowerment of Brazil as a nation. Petrobras was born out of necessity, but it is time to ask ourselves if a state oil company is really a necessity nowadays. As the 21st century unveils itself as an age of protectionism, low economic growth and environmental constraints, it seems unlikely that the development concepts from the 1950s will still stand. It is now necessary to foster a stronger civil society, to find a sustainable development model and to attend the most basic needs of the population and ultimately to heal the ideological schism that plagues the Brazilian political landscape, so that we can become in our hearts brothers and sisters in citizenship once again.723

723 The last part was inspired and quoted RFK’s famous speech in Cleveland where he asked for Americans to go beyond racial issues. Source: http://www.jfklibrary.org/Research/Research-Aids/Ready-Reference/RFK-Speeches/Remarks-of-Senator-Robert-F-Kennedy-to-the-Cleveland-City-Club-Cleveland-Ohio-April-5-1968.aspx
Appendix

TABLE 1 – Onshore x Offshore Oil Domestic Production in Brazil

TABLE 2 - Foreign direct investment in the Brazilian oil sector after the oil market liberalization in 1995 (US$ million).

Source: Brazilian Central Bank Database.
### TABLE 3 – Domestic Oil Output X Foreign Direct Investment (1967-2000)


<table>
<thead>
<tr>
<th>Year</th>
<th>Avg. Oil Output (000 bpd)</th>
<th>Avg. FDI (US$ BI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1970</td>
<td>10.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1975</td>
<td>20.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1980</td>
<td>30.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1985</td>
<td>40.00</td>
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<tr>
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<tr>
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<td>0.00</td>
</tr>
<tr>
<td>2000</td>
<td>1750</td>
<td>0.00</td>
</tr>
</tbody>
</table>
TABLE 4 - Foreign Direct Investment x Brazil’s Oil Imports (1967-2010)

TABLE 5 - External Debt x Domestic Oil Output (1967-1985)

TABLE 6 - **Average Global Crude Price x Brazil’s Oil Imports (1970-1985)**

Sources: BP statistical review and National Energy Bulletin

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil Oil Imports (000 bpd)</th>
<th>Avg. Crude barrel (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
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</tr>
<tr>
<td>1972</td>
<td>10.00</td>
<td>7.00</td>
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<td>1974</td>
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</tr>
<tr>
<td>1979</td>
<td>10.00</td>
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<td>10.00</td>
</tr>
<tr>
<td>1985</td>
<td>10.00</td>
<td>11.00</td>
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