



1942

CHAPTER 2

The Creation of Companhia Vale do Rio Doce

2.1 Born with a built-in expiration date

At the moment when President Getúlio Vargas picked up his pen to sign Decree-Law 4,352,¹ establishing Companhia Vale do Rio Doce, on June 1, 1942, it is possible that he did not realize the true importance of this act for the history of Brazil – and specifically for the future of mining. Vale – alongside the National Steel Company (Companhia Siderúrgica Nacional, or CSN), created one year before – was more than just a pawn on the chessboard of wartime international relations. In a short time, it would gain a life of its own and grow into one of the country’s biggest companies.

On June 1, 1942, Brazil was immersed in an institutional crisis centered on the country’s decision on whether to enter the Second World War. Twenty days before, the merchant vessel *Comandante Lira* had been torpedoed in Brazilian waters between Ceará and Rio Grande do Norte, in an attack attributed to German submarines. In the days that followed, another three Brazilian ships had the same destiny – the last of them, *Alegrete*, on June 1 precisely.²

On the streets of Rio de Janeiro, then the capital of the Republic, the people began persecuting German immigrants, defacing their homes with graffiti and throwing stones at their commercial establishments.³

1 - This decree expropriated the companies Companhia Brasileira de Mineração e Siderurgia S. A. and Itabira de Mineração S. A., as well as the Vitória-Minas Railroad and its entire track, buildings and rolling stock. It also established the articles of incorporation of the new company, Companhia Vale do Rio Doce S.A. The decree was signed by President Getúlio Vargas and ministers Artur de Souza Costa, Vasco Leitão da Cunha, João de Mendonça Lima, Oswaldo Aranha and Alexandre Marcondes Filho (available at: <<http://www.camara.gov.br/internet/InfDoc/novoconteudo/legislacao/republica/Leis1942vIIP245/pdf19.pdf>>). CVRD’s definitive constitutional assembly took place on January 11, 1943. See Pimenta, Dermeval, *A Vale do Rio Doce e sua história*. Belo Horizonte: Editora Vega, 1981, p. 111.

2 - See Ferraz, Francisco César. *Os brasileiros e a Segunda Guerra Mundial*. Rio de Janeiro: Jorge Zahar Editor Ltda., 2005. See also Sander, Roberto. *O Brasil na mira de Hitler: a história do afundamento de navios brasileiros pelos nazistas*. Rio de Janeiro: Editora Objetiva, 2007.

3 - See Ferreira, Jorge & Delgado, Lucília de Almeida Neves (org.). *O Brasil Republicano. O tempo do nacional-estatismo: do início da década de 1930 ao apogeu do Estado Novo*. Rio de Janeiro: Civilização Brasileira, 2007, vol. 2.

Economic instability would also result in the creation of a new currency, the cruzeiro, in October of the same year. It was the first change to Brazil’s currency since independence in 1822.

In 1942, Brazil – where the song “Ai que saudades da Amélia,” by Ataulfo Alves and Mário Lago, had become an instant hit – needed to find its way. The country needed money, it needed to nationalize its ore and, according to its American commercial partners, it needed to join the war. Companhia Vale do Rio Doce, a company capable of expanding the supply of iron to the United States’ arms industry, was fundamental.

Established by incorporating two existing companies – Companhia Brasileira de Mineração e Siderurgia S. A., and Itabira de Mineração S. A. – the new company was also tasked with maintaining, using and expanding the Vitória-Minas Railroad (EFVM). It was also given Cauê Mine – minimally exploited during Percival Farquhar’s time as president of the Itabira Iron Ore Company – which would become a kind of symbol of Vale’s early days.

In the article “O Brasil e seu minério de ferro” (“Brazil and its iron ore”), published in *Observador Econômico e Financeiro* in 1945, soon after the beginning of mining activity, Cauê was rated a high-productivity mine. “It is known that Cauê’s ore is found at the surface of the ground, and every blast dislodges 4,000 metric tons.”

The first block of rock was removed by Vale on October 24, 1944. It was the start of a project that would go beyond the mine itself and start to determine the history of mining in Brazil.

As will be seen in due course, CVRD was the result of the so-called Washington Agreements, which provided for the participation of foreigners in strategic leadership positions at the company. The first superintendent to be appointed, Israel Pinheiro, had been in Washington at the signing of the agreements. In his first act for the Vitória-Minas Railroad, Pinheiro asked to borrow a pair of scissors, cut off his shirt sleeves and said: “Now, all hands on deck!” This phrase would be written on the pamphlets selling shares in the company, and partially explains the company’s record since then.

COMPANHIA
VALE DO RIO DOCE S/A

(Decreto-Lei n. 4.352 de 1.º de Junho de 1942)



Previous page: ore being extracted at Cauê Peak in Itabira, Minas Gerais, in 1944, and Decree-Law 4,352 establishing CVRD on June 1, 1942. To the left, from top to bottom: people celebrate the end of the Old Republic and the victory of the 1930 Revolution, and a paper factory in Petrópolis, Rio de Janeiro, signaling the start of the country's industrialization.

In article 4 of the Statute to Establish Companhia Vale do Rio Doce (an appendix to Decree-Law 4,352 of June 1, 1942), the following was written: “The company’s duration shall be 50 (fifty) years, counting from the time of its constitutional assembly. However, the general assembly reserves the right to deliberate at any time on the extension of this period or the dissolution of the company before the established term.”

For 70 years, Vale, with the energy of a child, has been contradicting the predictions of its own founding statute.

2.2 The Mining Codes of 1934 and 1940

When he took over as head of the Provisional Government on November 3, 1930, after the victory of the 1930 Revolution,⁴ Getúlio Vargas began a widespread institutional reform to strengthen state intervention in the social and economic fields. The 1930 Revolution was an armed political movement led by the states of Minas Gerais, Paraíba and Rio Grande do Sul, which culminated in the end of the Old Republic. Among the novelties that came with the new government was the popularization of a term until then little used by Brazilians: industrialization.

As part of the strategy developed by Vargas, there could be no industry without the full harnessing of the country’s mineral resources, especially iron. And, in a government with a nationalist profile, there would be no iron production until all of the deposits were the property of Brazilians. The Mining Code needed to start to change.

The revolutionary government’s preoccupation with the exploitation of mineral resources was expressed for the first time in February 1931. In a speech given in Belo Horizonte, Minas Gerais, Vargas emphasized the need to nationalize mineral reserves, above all those of iron.⁵ This preoccupation gained force with Decrees 20,223

of July 17, and 20,799 of December 16 of the same year, which suspended all acts that implied the disposal of any mineral deposit.⁶

The government’s interest in mining was also reflected in the administrative sphere. In the process of restructuring the Ministry of Agriculture, Industry and Trade, the Directorate General of Mineral Production was created. Nearly one year later, in March 1934, the National Mineral Production Department (DNPM) was established in order to study all subjects concerning the country’s mineral production and corresponding technical education, as well as subjects related to knowledge of the country’s geology and the use of water to produce energy or for irrigation.

To complete this set of measures, on July 10, 1934, Decree 24,642 enacted the Mining Code. Alongside the Water Code, created on the same day, the Mining Code was the Provisional Government’s most important contribution in terms of legal instruments for state intervention in the economy. Through it, the legal regime governing mines instituted by the 1891 Constitution was substantially modified – from then on, a fundamental distinction was established, for the purposes of mining, between ownership of the land and ownership of mineral deposits and other resources beneath the ground.

The new Code was composed of 95 articles, and its main author was Domingos Fleury da Rocha, then director of the DNPM, supported by the Minister of Agriculture, Juarez Távora. Although it was signed on July 10, it was only published on July 23, days after the passing of the 1934 Constitution, on July 16. The Constitution gave legal support to the changes brought about by the Code, and the government became the main controller of the country’s policy for mineral prospecting and extraction.

With the new Code, mineral deposits were now characterized as real estate, distinct and separate from the land where they were found. Exploiting them required authorization or a concession from the federal government. Permits for prospecting and mining concessions would be given exclusively to Brazilians or companies constituted in the country. Landowners would be guaranteed preference to exploit the deposits on their land, or to a share of the profits if a mining concession were granted to third parties.

The right to mining concessions would obligatorily depend on prior prospecting work, whose economic value was recognized by the DNPM.⁷ Concessions would last while mining activity continued, and the surface area could not exceed the maximum area established in regulations for each class of deposit. Finally, and of fundamental importance, there were plans for the progressive

nationalization of mines and mineral deposits deemed essential to the country’s economic or military defense.

The Code of 1934’s starting point was a distinction made between mineral deposits and mines. A deposit was considered to be the whole mass of mineral or fossil substances existing inside or on the surface of the land that could be valuable to industry. Mines, on the other hand, were considered to be deposits in their commercial sense: in other words, deposits themselves, plus their set of constituted property rights, the effects of exploration, and also the ownership of the concession that represented them.

For the purpose of harnessing deposits, the Code established two different regimes. With regard to those already being mined as of the publication date of the Code, it was determined that they could continue to be exploited, regardless of authorization or concessions from the public authorities, provided that they were declared within a maximum period of one year, counting from that same date. This declaration should state proof of the deposit’s existence, nature and conditions, as well as the extent of the property rights over it. Mineral substances used for construction did not require authorization or concessions. Their exploitation was reserved exclusively for the respective landowners, in accordance with administrative regulations.

In relation to deposits that were known but not yet exploited as of the Code’s publication date, it was determined that they would continue to belong to landowners, but to exploit them, they would require a concession from the government. In such cases, the landowners also had the preferential right to mine them, or to share the profits of exploitation. For the purposes of the Code, deposits would only be considered to be “known” that were declared to the public authorities within the same periods and in line with the same rules established in the previous case. It was also established that all deposits unknown before the Code’s publication date would, when discovered, become the federal government’s permanent and inalienable property. Deposits that were known but not declared under the terms of the Code were also included in this category.

Mining concessions would only be granted following approval by the DNPM and publication of the respective concession decree. The start of mining had to occur within no more than one year, except in circumstances of a justified impediment accepted by the government. The DNPM was also responsible for inspecting mineral deposit prospecting and mining work, and the mining companies had to submit annual mining reports to it.

Mining companies constituted under the Mining Code regime were exempt from import taxes for machines and tools that did not exist in the country, and they would pay minimum charges for railroad and shipping transportation, and for wharfage and transshipment services at ports. To benefit from these favors, at least two-thirds of the companies’ engineers and three-quarters of

4 - To find out more about the Revolution of 1930, see Candido, Antonio. *A Revolução de 1930 e a cultura*. São Paulo: Cebrap, 1984 and *O significado de Raízes do Brasil*. São Paulo: Cia. das Letras, 1995; Fausto, Boris. *A Revolução de 1930: historiografia e história*. São Paulo: Brasiliense, 1972 and *História do Brasil*. São Paulo: Edusp, 1995; Holanda, Sérgio Buarque de. *Raízes do Brasil*. São Paulo: Cia. das Letras, 1995; and Magalhães, Juracy; Gúeiros, José Alberto. *O último tenente*. São Paulo: Record, 1996.

5 - See Sodré, Nelson Werneck. *História da burguesia brasileira*. Rio de Janeiro: Civilização Brasileira, 1964, p. 263.

6 - See Pimenta, Dermeval. *A Vale do Rio Doce e sua história*. Belo Horizonte: Editora Vega, 1981, p. 59. The encumbrance of a mineral deposit is understood to mean an event that makes it the subject of a guarantee, for the purposes of a given business deal. See also Schwartzman, Simon (org.). *Estado Novo, um autorretrato*. Brasília: Published by the University of Brasília. Coleção Temas Brasileiros, 24, 1983, p. 565.

7 - Simon Schwartzman (op. cit., pp. 566-568) presents a detailed description of administrative changes to the former Geological and Mineralogical Service of Brazil (SGMB).



their manual laborers had to be native Brazilians. The companies also had to run schools for manual workers and their children in the vicinity of the mines, and found hospitals or provide medical services to treat their personnel, always with the approval of the government.

On the day after the Code was enacted, the federal government issued regulations on the payment of charges for prospecting permits and mining concessions, and for exploitable mines to begin production. Mining concession-holders that did not own the deposits or mine would be obliged to pay annual charges to the federal government, in two six-monthly payments, amounting to 1.5% of the mine's output. If a concession-holder were the landowner, it would be obliged to pay 3%. The taxes levied by the federal, state and municipal governments on mining concession-holders could not together exceed 25% of the company's net income.

The New State (1937-1945)

The establishment of the "New State" regime, on November 10, 1937, permitted even greater intervention by the state in the economic life of the country. The new Constitution, which was immediately put into effect, legalizing the new regime, gave the public authorities much more complex and active functions. The state now had the right to intervene directly in productive activities to overcome inadequacies in the private sector. Finally, with regard to mineral exploration, the new Constitution established a definitive rule: foreigners could no longer take part in the sector.

In the nationalist spirit that marked all of the New State's actions, the 1937 Constitution explicitly prohibited any new industrial exploitation of mines and mineral reserves by foreign companies. As of this moment, concessions to extract minerals would only be granted to Brazilians or companies owned by Brazilian shareholders, rather than companies merely constituted in Brazil, as provided for in the 1934 Constitution.

In 1940, through Decree-Law 1,985 of January 29, a new Mining Code was enacted. As well as maintaining the main principles

of the Code of 1934, the new Code incorporated the nationalist principles of the 1937 Constitution. It was thereby established that the right to prospect or mine deposits could only be granted to Brazilian individuals or legal entities owned by Brazilian partners or shareholders. The functioning of mining companies would depend on federal authorization, granted by the Ministry of Agriculture. To gain this authorization, companies had to prove their constitutional arrangements and the Brazilian nationality of their partners or shareholders. In order to force the exploitation of declared deposits, the 1940 Code determined that if mining did not occur within five years of that date, the reserves would be expropriated by the federal government. Mines were characterized as deposits being extracted and, in turn, deposits were defined as the entire mass of mineral or fossil substance existing inside or on the surface of the land that represented value for industry.⁸

2.3 The outcome for the Itabira Iron Ore Co.

The series of transformations in the Mining Code, starting with the Revolution of 1930, had direct consequences for the Itabira Iron Ore Co. Itabira, the owner of the largest iron reserves in the country, was linked to ever more urgent questions: the exportation of ore; the building of a large-scale steel mill; and finally, the possibility of a foreign company developing these projects in Brazil.

Itabira entered the 1930s with its contract finally legalized. However, as it did not start the planned work within the established timeframe, on May 27, 1931, the Minister of Transport and Public Works, José Américo de Almeida, declared the contract void. This

8 - For more information about the 1940 Mining Code, See Brazil, Ministry of Agriculture, *Código de Minas e legislação correlata*, pp. 9-34. The provision subjecting the operation of mining companies to federal government authorization incorporated a decision that had already been provided for in Decree-Law 938 of February 8, 1938.

did not last for long: soon after, the contract was revised and its termination was suspended.

After being examined by various levels of the state,⁹ Itabira's contract was submitted by Vargas to the Congress in May 1935. The executive branch then made the construction of a steel mill optional and called for the construction, at no cost to the government, of a 500-kilometer railroad between the Port of Santa Cruz (Espírito Santo) and Itabira (Minas Gerais) to permit the exportation of iron ore.

At the request of the legislature, the armed forces were summoned to give their position on the subject. Through official statements, the heads of the armed forces declared themselves to be against Itabira's contract. In their opinion, the issue was not only of economic nature, but also political, and above all, strategic to national defense. From that point onward, the military played a decisive role in the struggle to build a major steel plant in Brazil.¹⁰

In 1935, the world was ever more divided between communists and capitalists – and Brazil had just left behind the so-called Communist Conspiracy,¹¹ an uprising initiated in army barracks.

9 - Various commissions were formed to examine the subject, such as the Commission to Review the Itabira Contract and the National Steelmaking Commission, both established in 1931, the Legal Commission of the Transport Ministry, and the Commission of the Eleven, organized in 1933. With regard to the conclusions of the latter commission, see Pimenta, Dermeval, *op. cit.*, pp. 49-50.

10 - See Abreu, Alzira Alves de. "Companhia Siderúrgica Nacional" entry, DHBB, vol. 1, available at: <<http://www.fgv.br/CPDOC/BUSCA/Busca/BuscaConsultar.aspx>>.

11 - The Communist Conspiracy (Intentona Comunista) was characterized by a series of uprisings in 1935 involving soldiers, corporals and sergeants, on behalf of a popular revolution led by the National Liberation Action (Ação Nacional Libertadora, or ANL), whose honorary president was Luís Carlos Prestes. This movement brought together representatives of different political persuasions under the leadership of the Brazilian Communist Party (Partido Comunista Brasileiro, or PCB). The uprisings – which took place on November 23, 1935 in Natal, on November 24 in Recife, and on November 27 in Rio de Janeiro – were used as justification to concentrate more power in the hands of the central government of Getúlio Vargas. The Conspiracy was also one of Vargas' arguments for establishing the New State regime in 1937. See Abreu, Alzira Alves de. "Intentona Comunista" entry, DHBB Pós-1930. CPDOC/FGV. Available at: <<http://www.fgv.br/CPDOC/BUSCA/Busca/BuscaConsultar.aspx>>.

Vargas’ nationalist message was echoed in Brazilian society. In Europe, Hitler was gaining more power and passing laws against Jews, making military service of more than one year obligatory for men, and expanding his navy almost three-fold. The Second World War started to become a reality. In this context, iron, fundamental to the production of weapons, was worth gold – and “the iron was ours.”

On June 18, 1937, Itabira’s contract was once more discussed in the Chamber of Deputies. During the session, deputy and former President of the Republic Arthur Bernardes attacked the project head on, describing it as harmful to national interests. He suggested replacing it with a project by which the government would, at an opportune moment, form a corporation, of which it would be the majority owner, to mine iron ore, transport it on the Vitória-Minas Railroad, construct an ore quay in Vitória and build a merchant fleet.¹²

When Getúlio Vargas suspended Congress and instituted the New State on November 10, 1937, the question of the Itabira Iron Ore Co.’s contract was still not resolved. The president then asked the Federal Foreign Trade Council and the Technical Council on Economics and Finance to give their formal opinions on the issue. The final opinion of the latter entity, led by industrialist Pedro Demóstenes Rache, was published in 1938, and it recommended accepting the Itabira Iron Ore Co.’s contract. In fact, the opinion argued against state intervention in the economy, reflecting the stance of private groups strongly represented on the council.¹³

In the same year, 1937, the Minas Gerais Society of Engineers also pronounced on the subject, through a long report titled “National Steelmaking and Exportation of Iron Ore,” produced by Francisco de Magalhães Gomes and submitted to the Minister of Transport and Public Works, General João Mendonça Lima. The report opposed Itabira’s project, emphasizing the tradition of the state of Minas Gerais of defending national interests. It proposed building a Brazilian-owned steel mill fed by charcoal in the Doce River Valley. Unlike the Technical Council, the Minas Gerais Society of Engineers argued for state intervention in the economy.¹⁴

The commission created by the Federal Foreign Trade Council also came out against approving Itabira’s contract. In February 1939, it suggested establishing a state monopoly for the exportation of iron and manganese ore, besides organizing a state-owned steel

mill. If it were impossible to have a monopoly, the Council proposed a model of mixed state-private ownership, extending the state’s control over all steel companies.¹⁵ In May, the National Security Council approved this proposal.¹⁶

The end of the Itabira Iron Ore Company and Percival Farquhar’s next moves

In 1939, the Itabira Iron Ore Company’s contract, signed years before, was declared definitively void by Decree 1,507 of August 11. As a result, Itabira lost all the federal and state concessions it had held. However, in accordance with the Mining Code of 1934, it remained the owner of the land and iron mines of Itabira, given that it had declared its deposits within the established timeframe,¹⁷ and it also owned the majority of shares in the EFVM.

In fact, Itabira’s ambitions had already been drastically curtailed in 1937. According to the new Constitution, as a foreign company, it would not be able to directly operate its mines. Given this obstacle, Percival Farquhar, seeking alternative options for the deposits belonging to the Itabira Iron Ore Co., partnered with Brazilian capitalists. The company had two basic aims: to transport iron ore using the EFVM; and to operate the mines of Itabira.

Accordingly, in August 1939, at the same time that Itabira’s contract was definitively liquidated by the government, Farquhar, now having the businessmen Gastão de Azevedo Vilela, Álvaro Mendes de Oliveira Castro, José Monteiro Ribeiro Junqueira, Mário W. Tibiriçá, Aminthas Jacques de Moraes and Athos de Lemos as partners, founded the Brazilian Mining and Steel Company (Companhia Brasileira de Mineração e Siderurgia S.A., or CBMS), of which he owned 47%. Decree 4,642 of September 6 of the following year authorized the company’s operations, and Decree-Law 2,351 of June 28, 1940 authorized it to incorporate the Vitória-Minas Railroad Company, in exchange demanding the remodeling of the existing line and the construction of two new stretches.¹⁸

In July 1940, the CBMS began constructing the final stretch of the railroad, from Desembargador Drumond to Itabira, which would be completed in 1943. Following this, the Port of Vitória exported the first batch of iron ore (5,750 metric tons) from Itabira, to be shipped to Baltimore, USA. The iron ore was compact hematite in lump form, of chemical and physical characteristics that made it possible to be used directly in steel mills. In 1941, the company, together with the state government of Espírito Santo, began work on a special ore wharf in Morro do Atalaia, opposite the city of Vitória. At this time, the ore was transported in trucks from Itabira to Desembargador



First shipment of iron ore from the Port of Vitória in Espírito Santo, in Greek ship Modesta, in June 1940.

12 - Concerning this issue, see Monteiro, Norma de Góes (org.), *Ideias políticas de Arthur Bernardes*. Brasília / Rio de Janeiro: Senado Federal / Casa de Rui Barbosa, 1984, vol. 2, pp. 494-504.

13 - See Carvalho, José Murilo de. *A Escola de Minas de Ouro Preto: o peso da glória*, op. cit., p. 110. The official statements of the commissions and councils about the case of the Itabira Iron Ore Co. and the exportation of iron ore were published in full in Guinle, Guilherme et al., *A grande siderurgia e a exploração de minério de ferro em larga escala*. Rio de Janeiro: Finance Ministry, 1938, pp. 5-268.

14 - See Carvalho, José Murilo de, op. cit., pp. 111-112. For more information on this subject, see Gomes, Francisco Magalhães. *História da siderurgia no Brasil*, op. cit., pp. 223-242.

15 - For further information, see Soares e Silva, Edmundo de Macedo. *O ferro na história e na economia do Brasil*, op. cit., Appendix VI, pp. XXIX-XXXVII.

16 - See Abreu, Alzira Alves de, op. cit., p. 857.

17 - According to Dermeval Pimenta, op. cit., p. 59, the Itabira Iron Ore Co. “declared its mineral deposits on August 5, 1938, and registered them as mines.”

18 - *Idem*, ib.



From left to right: mine workings in the Cauê Peak region in Itabira, Minas Gerais; Governor Punaro Bley receives a delegation led by Afrânio de Mello Franco to inspect construction work on the Atalaia ore quay in Vitória, Espírito Santo, at the start of the 1940s; overview of the Belgo-Mineira steel mill; and a parade to honor Getúlio Vargas and the creation of a national steel industry, in the 1940s.

Drumond and, from there, by train to Pedro Nolasco, from where it was once more carried in trucks to the quays of the Port of Vitória, where it was stored to be loaded onto ships.¹⁹

In December 1941, a group of Brazilian businessmen, composed of Afonso Pena Júnior, Edmundo de Castro Lopes, José Monteiro Ribeiro, Álvaro Mendes de Oliveira Castro, Francisco F. Pereira, Gastão de Azevedo Vilela, Mário W. Tibiriçá and Aminthas Jacques de Moraes, Farquhar's partners in the CBMS, founded Companhia Itabira de Mineração (Itabira Mining Company), with the aim of operating the Itabira Iron Ore Co.'s mines. Farquhar proposed that the group would lease the mines, rights and properties from the Itabira Iron Ore Co., and would have an option to purchase them. As payment for transferring this option, the recently established company would have to pay the sum of 30 million réis, as well as US\$1.3 million for the mine lease, for 25 years.²⁰ This transaction, however, was never completed. The Washington Agreements, signed the following year, would change the course of history once more.

2.4 Establishment of the National Steel Company (Companhia Siderúrgica Nacional)

The year 1939 was of fundamental importance, not only to the outcome of the Itabira case, but also to the building of a major steel mill in the country. Since the beginning of the decade, the country's iron and steel production capacity had been increasing due to investment in the building of new plants and the expansion of existing ones, undertaken by companies such as Companhia Ferro Brasileiro (Caeté plant, Minas Gerais, 1931), Siderúrgica Barra Mansa

19 - See Ribeiro, Lucílio da Rocha. *Pequena contribuição à história da Estrada de Ferro Vitória a Minas*, op. cit., pp. 77-78.

20 - See Pimenta, Dermeval, op. cit., pp. 64-65.

(Barra Mansa plant, Rio de Janeiro, 1931) and Companhia Siderúrgica Belgo-Mineira (Monlevade plant, Minas Gerais, 1937).²¹ Although progress had undeniably been made,²² Brazil's self-sufficiency in iron and steel was far from being achieved: more than 75% of the rolled steel consumed in the country was imported. In the late 1930s, the Brazilian steel industry was still small, based on the use of charcoal, a fuel that was increasingly expensive and difficult to obtain.

The first steps to change this situation were taken in January 1939 when, at the suggestion of the Minister of Transport, João de Mendonça Lima, President Vargas sent Lieutenant Colonel Edmundo de Macedo Soares to Europe, tasked with negotiating the sale of Brazilian iron ore. However, the impending outbreak of the Second World War meant that European countries had little interest in investing in Brazil. In March, during a mission to the United States, the Minister of Foreign Affairs, Oswaldo Aranha, made contact with the United States Steel Co. (US Steel), then the biggest steel producer in the world, which expressed interest in collaborating with the Brazilian government to build the first coke-fed steel mill in the country.²³

In June of that year, US Steel sent technicians to Brazil to study the feasibility of building a major coke-fed steel mill, with a mixture of private and public sector capital. At this time, a joint commission of American and Brazilian technicians was set up, whose members included Edmundo de Macedo Soares, Plínio Cantanhede, João Batista da Costa Pinto and Joaquim Arrojado

21 - See Suzigan, Wilson. *Indústria brasileira: origem e desenvolvimento*, op. cit., pp. 275-277. See also Fernandes, Francisco do Rego (org.), *Os maiores mineradores do Brasil: perfil empresarial do setor mineral brasileiro*. São Paulo: EMEP, 1982, vol. 2, pp. 670-671. The article "Amplio inquérito sobre o problema do ferro no Brasil," *Observador Econômico e Financeiro*, October 1943, pp. 107-140, provides details of the steelmaking projects of various private Brazilian companies.

22 - According to Wilson Suzigan, op. cit., p. 596, from 1930 to 1940, pig iron production rose from 35,305 to 185,570 metric tons, steel production increased from 20,985 to 141,201 metric tons, and rolled iron output expanded from 25,895 to 135,293 metric tons.

23 - See Soares e Silva, Edmundo de Macedo, op. cit., pp. 114-122.

Lisboa. The commission recommended constructing a plant to be administered by a Brazilian corporation, which would be organized and managed jointly by the Brazilian government and US Steel.

This mill would initially produce 285,000 metric tons per year of finished products, including railroad tracks and accessories, sections, round and flat iron, plate, sheet metal, and pig iron for smelting. It was also established that the plant would use coke obtained by mixing coal from Santa Catarina with imported coal, and that it would be located near the city of Rio de Janeiro, close to the suburb of Santa Cruz. The steel mill would be served by the Central do Brasil Railroad, and the Port of Laguna (Santa Catarina) would be prepared to ship out coal.²⁴

Loans from Eximbank to CSN

In March 1940, the Executive Commission of the National Steelmaking Plan was created to establish the principles for building Brazil's first large steel mill. The commission, whose members included businessmen Guilherme Guinle and Edmundo de Macedo Soares (the main people responsible for the mill's financial and technical plans, respectively), foresaw average annual production of 300,000 metric tons of medium and heavy sections, tracks, plate and sheet metal. In terms of the plant's location, the site finally chosen was Volta Redonda, at the time a district of the municipality of Barra Mansa, in the state of Rio de Janeiro.²⁵

After long and eventful negotiations with the United States government, involving the granting of permission for the US to install military bases in the northeast of the country, Brazil obtained a US\$20-million loan from Eximbank (Export-Import Bank), a US credit institution concerned with export and import business and international funding to acquire machinery. At a general assembly held on April 9, 1941, Companhia Siderúrgica Nacional (CSN) was finally established, with paid-up capital of 500 million cruzeiros. In

24 - See Abreu, Alzira Alves de, op. cit., p. 858.

25 - *Idem*, ib.

exchange for its loan, the United States demanded the creation of an executive office composed of Brazilian and American engineers, tasked with coordinating all of the work of making final calculations for the plant and selecting materials.²⁶

The construction of the mill in Volta Redonda began in 1941. The first parts to begin operating, in April 1945, were the coke ovens and byproducts sector (which produced substances such as tar, pitch, benzene and naphtha). By the end of the Second World War, 80% of the plant had been completed. As a result of CSN's establishment, Brazil's annual steel output rose from 205,935 metric tons in 1945 to 788,557 metric tons in 1950.²⁷ During the period when the plant was being built, the Central do Brasil Railroad's tracks were extended, connecting Rio de Janeiro to Volta Redonda. The Nova Iguaçu-Barra do Pirai stretch was also electrified.

In turn, the United States government committed to granting a loan of US\$14 million through Eximbank. These resources would be used to purchase American equipment, machines and services required to restore and extend the Vitória-Minas and equip the mines of Itabira and the Port of Vitória.

The package's overall objective was to ensure the production, transportation and export of 1.5 million metric tons per year, to be bought in equal shares by the United States and Britain, for a period of three years, at prices considerably below the prevailing market level. The three-year contract could be renewed until the end of the war. Once the conflict was over and the last three-year contract had come to an end, the United States and Britain would still have the right to acquire ore, but now at free market prices.

The Brazilian government would now finally expropriate the Vitória-Minas Railroad (EFVM) and reequip the production complex by creating a company tasked with extracting, transporting and shipping ore from Itabira. This company would be administered by Brazilian and American directors until all the loan payments had been paid and obligations met, at which point the mine operations would revert fully to the Brazilian government.

In April 1942, a Special Commission to Regulate the Washington Agreements was set up, with the aim of presenting a report on the extraction, transportation and exportation of iron ore. After the Brazilian, American and British governments approved the report and ratified the agreements, President Getúlio Vargas issued Decree-Law 4,352 of June 1, 1942, establishing the principles for constituting Companhia Vale do Rio Doce (CVRD, named for the Doce River Valley in which its operations lay) and expropriating Companhia Brasileira de Mineração e Siderurgia S.A. and Companhia Itabira de Mineração.³⁰ The shareholders of Companhia Brasileira de Mineração e Siderurgia S.A. would be compensated in cash by the federal government. In addition, the contract signed in June 1940 by the company and the government concerning the remodeling and extension of the EFVM would be terminated. The shareholders of Companhia Itabira de Mineração, which was still in the process of being constituted, would also receive compensation. The amount to be paid took into account the company's ore stocks, facilities, vehicles and equipment.

Until the definitive establishment of CVRD, the properties taken over by the federal government would be administered by a superintendent. The government appointed Israel Pinheiro to this position, a qualified engineer, the Secretary of Agriculture of Minas Gerais, and a member of the Special Commission.

30 - See Pimenta, Dermeval, *op. cit.*, pp. 86, 107. For the full decree, see Brazil, Ministry of Mines and Energy, *Legislação*, vol. 2, pp. 41-43.



Israel Pinheiro

Even before becoming president of Companhia Vale do Rio Doce, Israel Pinheiro (Caetés, Minas Gerais, 1896 – Belo Horizonte, Minas Gerais, 1973) was in many ways already part of Vale. Before the company was established, he participated in the negotiations for the Washington Agreements between Brazil, Great Britain and the USA, which resulted in the expropriation of the Itabira Iron Ore Company and, finally, the creation of CVRD in 1942. During the company's first year, he was appointed superintendent, and he served as its president from 1943 to 1945.

Pinheiro qualified as an engineer from the Ouro Preto Mining School and worked in various administrative spheres of the state government of Minas Gerais before being appointed president of CVRD. His short time running the company was marked by investment in mine mechanization, the company's export-oriented profile, and its care for employees. After leaving CVRD, he returned to politics, his greatest vocation. Close to Juscelino Kubitschek, he was the first mayor of Brasília (1960-1961), and he later served as governor of Minas Gerais between 1966 and 1971.



2.5 The Washington Agreements and the establishment of Companhia Vale do Rio Doce

By the start of the 1940s, the Second World War was well under way and a harsh reality. The Western powers were seeking alternative ways of supplying their arms industries with raw materials, especially iron. Brazil, which until then had not managed to solve its basic problems of exporting ore, found a good opportunity to establish its position on the global market. The Washington Agreements played a fundamental role in this.²⁸

Signed on March 3, 1942 by the governments of Brazil, Great Britain and the United States, the Washington Agreements defined the principles for establishing a company in Brazil to export iron ore. Through these agreements, the British government agreed to acquire the iron ore reserves belonging to the Itabira Iron Ore Co. and transfer them to the Brazilian government at no cost. At this time, the properties of the Itabira Iron Ore Co., all located in the municipality of Itabira, were as follows: Cauê, Serra da Conceição, Dois Córregos, Dirão e Onça, Itabiruçu, João Coelho, Borrachudo, Santana, Sumidouro, Campestre-Manuel Anastácio and Rio do Peixe. In all, this set of properties covered more than 74 million square meters.²⁹

26 - *Idem, ib.* During the Second World War, the United States' foreign policy toward its allies strongly favored economic autonomy initiatives, understood as a way of strengthening them and ensuring solid support. See Malan, Pedro Sampaio et al., *Política econômica externa e industrialização do Brasil: 1939-1952*. Rio de Janeiro: IPEA, 1977.

27 - See Malin, Mauro. "Dutra, Eurico Gaspar" entry, *DHBB*, vol. 2, p. 1,147.

28 - Information about the Washington Agreements was taken from Fernandes, Francisco do Rego (org.), *op. cit.*, vol. 1, pp. 16-17. There were six agreements in all, but just two dealt with subjects related to mining. See also Pimenta, Dermeval, *op. cit.*, pp. 79-80.

29 - See Pimenta, Dermeval, *op. cit.*, pp. 60-61.

Previous page (top): the president of CVRD, Israel Pinheiro (in a white suit), and his delegation visit the Atalaia ore quay at the Port of Vitória in Espírito Santo. Previous page (bottom): iron ore being unloaded from trucks at the Port of Vitória.

To the right: busy operations at Cauê Mine in Minas Gerais, in 1943.



Ore being extracted manually and carried in straw baskets to wagons in Presidente Vargas, Minas Gerais, in 1942, the year CVRD was established. Opposite page: Cauê Peak in the first years of ore extraction, between 1942 and 1945.





Previous page (left): a meeting between the Brazilian and British governments – represented, respectively, by the Minister of Foreign Relations, Oswaldo Aranha, and Ambassador Noel Charles – ratifying the terms of the Washington Agreements of March 1942, which provided for the transfer to Brazil of the Itabira Iron Ore Co.'s mines, goods and facilities, as well as the EFVM. Previous page (right): workers at Cauê Peak in Minas Gerais.

CVRD would be constituted as a partially government-owned corporation, with initial paid-up capital of 200 million réis. Its board would be composed of five members: a president and two directors of Brazilian nationality, and two American directors. The company would be organized in two basic departments: one for the Vitória-Minas Railroad, to be administered by Brazilian directors; and the other for the mines of Itabira, run jointly by Brazilians and Americans.

Israel Pinheiro had the provisional status of superintendent for six months – from June 1942 to January 1943 – until the company was formally constituted. There was a great deal of complex work to do in little time. Pinheiro would have to administer the properties incorporated by the federal government and the EFVM, continue the work to extend the railroad on the stretch between Desembargador Drumond and Itabira, develop the iron mines of Itabira, build a special pier, and expand the Port of Vitória.

During these months, a number of important initiatives were taken. Negotiations with Eximbank was initiated to obtain a US\$14-million loan, and the American consultancy firm Parsons, Klapp, Brinckerhoff & Douglas (PKBD) was hired to produce technical studies and designs required to develop the mines and reequip and remodel the EFVM. PKBD was also responsible for acquiring equipment and materials to be used to implement the program. During this period, around 8,000 metric tons of materials were imported from the USA, mainly railroad tracks and accessories.

The purchase (or leasing) of 90 train cars and nine locomotives enabled 41,000 metric tons of iron ore to be transported during these months. In addition, work on building the branch line between Itabira and the deposits of Cauê was begun. Finally, the first tracks were laid on the stretch between Capoeirana and Itabira, and work on the ore wharf in Vitória continued.

At the end of 1942, the superintendent issued a statement regarding CVRD's share subscription: 110 million réis would be subscribed by the national treasury (common shares), and 90 million réis could be invested by the public (preferred shares). At the time, the company's assets were estimated to be worth 739 million réis.

On January 11, 1943, the assembly to definitively constitute Companhia Vale do Rio Doce was held in Rio de Janeiro.³¹ At the meeting, the company's articles of incorporation were approved, as was the transfer to its ownership of the mines of Itabira, "as the federal government received them," as well as the EFVM and all the assets that had belonged to Companhia Brasileira de Mineração e Siderurgia S.A. and Itabira de Mineração S.A. The total value of the deal was 80 million cruzeiros.³² It was determined that CVRD's administrative headquarters would be located in the city of Itabira and that its domicile for all legal purposes would be in the municipality of Rio de Janeiro.

The company's board would be composed of a president, freely appointed by the President of the Republic, and four directors chosen by the general assembly. After six months as superintendent, Israel Pinheiro was appointed as president of CVRD, thereby continuing to run it. The directors elected were the Americans Robert K. West and C. Alvin Lawrenson,³³ representing Eximbank, and the Brazilians General Denis Desiderato Horta Barbosa, who was appointed vice-president, and Major João Punaro Bley, the governor of Espírito Santo. The presence of Israel Pinheiro and Punaro Bley, prominent figures on the political scenes of Minas Gerais and Espírito Santo, reveals the federal government's concern in aligning the board with the political power in those states, which were the most directly involved with CVRD's operations.

31 - CVRD's articles of incorporation were filed at the National Department of Industry and Trade, registration number 18,689, on January 27, 1943, and published in the official gazette (*Diário Oficial*) on the following day, Section I, p. 1,282.

32 - Ordinance 5 of the Finance Ministry, cited in Pimenta, Dermeval, *op. cit.*, p. 111. Decree-Law 7,491 of October 5, 1942 instituted the cruzeiro as a currency to replace the thousand-réis. This explains the expression in cruzeiros of the values of the financial transaction conducted.

33 - Although article 15 of the articles of incorporation did not refer to the nationality of the directors, Decree-Law 4,352 (article 5, paragraph 4) determined that two of the five directors of CVRD must be American. See Pimenta, Dermeval, *op. cit.*, p. 112.



Top of page: ore deposit at Areão Mine in Itabira, Minas Gerais. Below: the Vitória-Minas Railroad transporting ore at the start of the company's activities.



Opposite page: ore being loaded in 1944 (top), and, in the same year, technicians from Companhia Raymond-Morrison Knudsen do Brasil S. A., responsible for work on the EFVM (bottom).

2.6 CVRD’s early years

Concerned to achieve its target of exporting 1.5 million metric tons of iron ore as agreed in the Washington Agreements, CVRD’s first board concentrated its efforts on improving the workings of the mine-railroad-port complex. In order for this goal to be met satisfactorily, it was essential to obtain the resources from Eximbank as provided for in the agreements.

On March 18, 1943, a financial agreement was signed by the Brazilian government, CVRD and Eximbank, through which the American bank would lend US\$14 million. This money was earmarked to fund the work of expanding the Itabira mines’ production capacity, rebuilding and reequipping the Vitória-Minas Railroad, and constructing the ore wharf in Vitória. The loan would involve promissory notes issued by CVRD, payable over 20 years starting from the date of issue, at an annual interest rate of 4%.³⁴ The maturity period was subsequently extended to 25 years. Having guaranteed external resources, CVRD stepped up the pace of the work carried out by its Itabira Mines Department, which employed around 6,000 workers in 1944.

However, at the mines of Itabira, the recently started operations employed rudimentary processes, without any mechanical equipment. The ore was still transported in trucks to the end of the EFVM’s tracks in Oliveira Castro, 22 kilometers from the Cauê mineral deposit. The Vitória-Minas Railroad was also in a very precarious state: with its worn tracks and practically worthless crossties, the railroad did not provide safe conditions for any of the trains, whether carrying iron ore, other goods or passengers.

CVRD’s report of 1943 mentions the occurrence in that year of around 100 derailments per month, caused by the dreadful state of the tracks. The company also faced problems hiring workers, given

that the railroad, extending for almost 600 kilometers, crossed municipalities that lacked any facilities.³⁵

Despite all these problems, in August 1943 – four decades after work on building the railroad began – the EFVM’s tracks finally reached Itabira, thereby enabling the regular loading of ore at the town’s recently opened train station. In October, the American-owned firm Raymond-Morrison Knudsen do Brasil S.A. was hired to administer work on the railroad. Various Brazilian companies were invited to provide earthmoving services.

On the administrative level, due to the absence of suitable buildings and communications infrastructure in Itabira, the headquarters remained for some months in Belo Horizonte, at the offices of the former Mines Department. As a result of this situation, the company was authorized to temporarily transfer its administrative headquarters to Rio de Janeiro.³⁶

At the end of CVRD’s first year of activity, infrastructure building work had already consumed its entire capital. As a result, at an extraordinary general meeting held on July 15, 1944, shareholders authorized an expansion of its capital from 200 to 300 million cruzeiros. During this same meeting, the board was authorized to issue 300 million cruzeiros in debentures.

Likewise, the loan provided by Eximbank (US\$14 million) was evidently insufficient. Urgently requiring railroad materials to reequip the Vitória-Minas Railroad due to rising freight volumes, CVRD’s board negotiated an additional US\$5-million loan from the American bank. This sum was released on March 1, 1945, after Eximbank’s demand for the national treasury to guarantee the operation was met.³⁷

34 - *Idem*, *ib.*, p. 114.

35 - See Kury, Mário da Gama. *Companhia Vale do Rio Doce – 40 anos*. Rio de Janeiro: Nova Fronteira, 1982, pp. 27-28. For more information about working conditions in the early years of Companhia Vale do Rio Doce, see Minayo, Maria Cecília de Souza. *Os homens de ferro: estudo sobre os trabalhadores do Vale do Rio Doce, em Itabira*. Rio de Janeiro: Dois Pontos, 1986, especially Chapter 1, “A época do muque,” pp. 35-68. In the social field, CVRD concentrated its initiatives on combating malaria and improving sanitary conditions in general. See Pimenta, Derneval, *op. cit.*, p. 121.

36 - See Pimenta, Derneval, *op. cit.*, p. 118.

37 - *Idem*, *ib.*, pp. 117-118.



Dermeval Pimenta

Dermeval Pimenta (São João Evangelista, Minas Gerais, 1893 – Belo Horizonte, Minas Gerais, 1991)¹ was appointed president of Companhia Vale do Rio Doce in 1946. At the time he was 50, with a diploma from the Ouro Preto Mining School and experience in public administration. He was prepared for the job. With the end of the Second World War and the decline in American investment in the arms industry, iron ore had few buyers on the market. After three years looking for loans, Dermeval saw the post-war world starting to rebuild itself, the price of iron rose, and Vale started to grow once more. By the time he left the company's presidency in 1951, the Vitória-Minas Railroad had been modernized and exports had quadrupled. He was always a champion of Vale. He wrote a book celebrating CVRD's 40th anniversary in 1982 – a precious historical document. Dermeval Pimenta also had successful spells at steel companies Usiminas, Belgo-Mineira and Acesita.

1 - See "Pimenta, Dermeval," DHBB, volume 4, pp. 4,617-4,618 and "Conheça todos os presidentes da história da Vale" (Learn about all the presidents in Vale's history), *Exame* magazine, April 5, 2011.



Previous page (top):
the access bridge to the
Atalaia quay and
ore silo at the Port of
Vitória, Espírito Santo.
Previous page (bottom):
the president of CVRD,
Dermeval Pimenta
(in the center), with
a parliamentary
commission visiting Cauê
Mine in Itabira, Minas
Gerais, in the 1940s.

View of the Doce
River in 1944.

"Paisagem do Rio Doce"



Men working to break up a rock in 1944.

Despite having faced various setbacks, the progress made by CVRD in these first years was significant. The importation of equipment, although delayed, ensured a certain degree of operational continuity. By mid-1944, when the contract between CVRD and PKBD was ended, the plans for mines and the railroad were practically ready, and their completion was the responsibility of Vale’s own technical department. As a result of investment in the EFVM’s construction projects, by April 1944 the train cars were loaded next to the mines, raising the efficiency of railroad transportation and, as a consequence, ore exports. Although the company did not come close to meeting its export target of 1.5 million metric tons per year, exports destined for England, for example, rose from 35,406 metric tons in 1942 to 62,928 in 1943, and then 127,194 in 1944. With the end of the Second World War and reduced global steel production, exports of ore then fell back noticeably in 1945 to 101,694 metric tons.³⁸

Although the export figures oscillated, development projects in the Doce River Valley region progressed well. The company’s presence in the area was of great importance, attracting new investment. By the end of 1945, many companies had moved to the valley, notably the Vitória Iron and Steel Company (Companhia Ferro e Aço de Vitória), the Itabira Iron and Steel Company (Companhia Ferro e Aço de Itabira), agricultural enterprise Companhia Agro-Pastoril, and the Doce River Sugar Company (Companhia Açucareira do Rio Doce), the latter two in the municipality of Governador Valadares (Minas Gerais).

2.7 The company’s financial situation in the post-war period

Focused from the beginning on the external market, Companhia Vale do Rio Doce was affected by instability in the international economy. When the Second World War ended in 1945, the company’s exclusive sale of iron ore to Great Britain and the United States came to an end, as the two countries relinquished their option to renew their contracts. If, on the one hand, this decision reduced the pressure to export ore, on the other hand it left CVRD without guaranteed markets in the short and medium term. The end of the global conflict caused a reduction in steel production on an international scale, and until the effects of European reconstruction

38 - See Kury, Mário da Gama, *op. cit.*, pp. 29-30.

made themselves felt, the demand for iron ore remained low and prices were consequently unrewarding.³⁹

The difficulties faced by CVRD were worsened by the high costs of maritime freight – Brazil was competing against countries such as Canada and Venezuela, closer to the main consumer markets (the United States and Europe). The lack of an adequate sales structure led CVRD to subject itself to a large number of intermediaries, which paid it prices well below those prevailing on the international market. The global market had changed, and it was essential to reduce the cost of iron ore.

Alongside this difficult economic and financial situation, at the start of 1946 the company experienced its first change of management. Elected federal deputy for Minas Gerais in December 1945, Israel Pinheiro left the presidency of CVRD in February of the following year, to be replaced by Dermeval José Pimenta, an engineer who was appointed by the President of the Republic, General Eurico Gaspar Dutra. João Punaro Bley and Robert West retained their positions on the board, as commercial director and director of American business, respectively. The position of finance director was held by another American, Bernard A. Blanchard. At that time, the position of vice-president was vacant. The Itabira Mines Department was run by American engineer Gilbert Whitehead, and the Vitória-Minas Railroad was the responsibility of Brazilian engineer Delecarliense Alencar Araripe.⁴⁰

Dermeval Pimenta – a man with more of a technical than political profile – and his directors were well aware of the problems that the company faced, as demonstrated by its 1946 report.⁴¹ In that year, CVRD recorded its lowest sales since 1943, with exports falling to 40,962 metric tons, sold at an average price of US\$5.30 per metric ton on an FOB (free on board) basis (meaning that the costs following the embarkation of goods are the responsibility of the purchaser).⁴² To reverse this unfavorable situation, new financial support was required, to be used to mechanize the mines, repair the railroad and modernize facilities at the Atalaia Quay at the Port

39 - See Abranches, Sérgio; Dain, Sulamis. *A empresa estatal no Brasil: padrões estruturais e estratégias*. Rio de Janeiro: Finep, 1978, unpublished academic paper, p. 44.

40 - See Pimenta, Dermeval, *op. cit.*, pp. 132, 140. After leaving the presidency of CVRD, Dermeval Pimenta became a director of railroad company Rede Mineira de Viação in April 1951. The following year, he was one of the founders of steel company Usiminas. Later, he served as a director of steel company Acesita. During his public life, he held a number of other positions, including Mayor of São João Evangelista, his home town, and Secretary of Transport and Public Works of Minas Gerais. In the 1980s, he was a member of the Culture Administration Council of Minas Gerais and the board of directors of the Minas Gerais Development Bank. He published 19 works, mainly technical, notably *A Vale do Rio Doce e sua história*; *O parque ferroviário de Minas Gerais*; *O transporte de matérias-primas e produtos siderúrgicos*; and *Aspectos do povoamento do Leste Mineiro* (with *Jornal da Vale*, August 1991, p. 4).

41 - Companhia Vale do Rio Doce, *Relatório correspondente ao ano de 1946* (1946 Annual Report), n.p.

42 - See Kury, Mário da Gama, *op. cit.*, p. 31.



A train traveling past the Cachoeira Escura ("Dark Waterfall") in the present-day municipality of Belo Oriente, Minas Gerais, in the 1940s or 1950s.



Vasco Coutinho Station, Espírito Santo, on the EFVM. Itapocu Peak can be seen in the background.



Previous page, from left to right: the EFVM's tracks and a visit from President Dutra to the Doce River Valley in 1947. Left: a train on a bridge over the Santo Antônio River.

of Vitória in Espírito Santo. During 1946, CVRD issued its third and final set of debentures as planned in 1944, amounting to 100 million cruzeiros, and obtained a loan of 30 million cruzeiros from Banco do Brasil,⁴³ with the intention of using these additional resources to continue essential construction work.

Another major problem experienced in the late 1940s was growing interference by the American directors in the company's administration. In 1946, Dermeval Pimenta attempted to raise a new loan of US\$7.5 million from Eximbank and issue new shares in the company. The loan negotiations extended to 1948, given that in exchange, Eximbank demanded not only a reduction in the powers of CVRD's president, thereby giving the American directors more autonomy, but also a reworking of the mechanism for paying back the initial loan of US\$14 million, already partially repaid.⁴⁴

In fact, Eximbank protested against the terms of the contract of March 18, 1943, signed without the approval of the national treasury, according to which interest and capital would only be paid from resources generated by iron ore exports. Only 15% of the value of exports would be allocated to paying the promissory notes for the loan in question. After 25 years, the promissory notes would be returned to CVRD as redeemed, even if the funds generated by the 15% of exports were not sufficient to pay their balance.

These payment conditions had been based on the forecast that two years after signing the contract, in other words as of 1945, CVRD would be exporting a total of 1.5 million metric tons of iron ore per year. As this had not been achieved, Eximbank argued that there would be losses if company management were not efficient and satisfactory.⁴⁵ In fact, the value of the promissory notes expiring up

to September 1, 1948 was US\$2.64 million, and the value effectively paid added up to a mere US\$548,016.23. According to the contract of 1943 (which had been denounced by Eximbank for not having been signed by the company president), this released CVRD from the obligation to pay the difference of US\$2,091,983.77.⁴⁶

Eximbank's loan

While negotiations continued at a slow pace, Companhia Vale do Rio Doce's situation deteriorated rapidly. By the start of 1948, its financial resources were running out and construction work was practically suspended. In the light of this critical situation, the federal government bought new shares in the mining company, increasing its paid-up capital to 650 million cruzeiros, and gave guarantees to back up the request for a loan from Eximbank. These measures were approved by the National Congress on February 17, 1948. At the same time, a parliamentary commission was established to promote strict control of the use of the new resources to be given to CVRD and to assess the possibility of completing the planned construction work and the conditions for executing the planned program.

Despite the progress in negotiations, two main questions remained: the form of payment for the promissory notes related to the US\$14-million loan; and changes in company management. On July 5, 1948, during a general shareholders' meeting, the two issues were at the center of discussions.

According to a resolution passed at the meeting, changes to the original loan's conditions were approved, as demanded by Eximbank as a condition for granting the new loan. CVRD assumed the obligation to fully pay off all the promissory notes issued on March 18, 1943 – not just those that had not yet expired, but also those partially paid and already redeemed by the company and considered paid by Eximbank. Although its loan payment demands were met, Eximbank did not have the same success regarding management changes. The creation of the position of general superintendent and a technical

council to advise the board and president did not meet the bank's expectations; the desire to include bank representatives on the board of directors was rejected and CVRD's president maintained the right to set the company's course.

Eximbank continued to insist on reducing the president's functions to those of a mere supervisor. This demand was definitively rejected in January 1950, through changes mandated by President Eurico Gaspar Dutra to the proposed reform of the company's articles of incorporation,⁴⁷ confirming the president's powers and preserving CVRD's autonomy.

The Cold War, anti-communism and “the oil is ours”

Eurico Gaspar Dutra was a career military official who had been the Minister of War between 1936 and 1945, and he became the president of Brazil through direct elections following President Vargas' 15-year rule. It was a defining moment for the country. Dutra was elected as part of a coalition between the Social Democratic and Brazilian Labor parties (PSD and PTB, respectively), receiving more than 3.2 million votes (54.16% of the total). He took office in 1946, the same year in which a new Brazilian Constitution would be passed by Congress. Following the end of the Second World War and the totalitarian years of the New State, the country was looking forward to times of democracy, peace and progress.⁴⁸

After the Cold War began in March 1946, Brazil's alignment with the United States and anti-communist pressure culminated in the breaking off of relations with the Soviet Union (something that would continue until 1962). Dutra was leading the country at a historic moment, but he is perhaps best known for – supposedly at the behest of his wife, Carmela Dutra – prohibiting gambling in Brazil. He also banned the Brazilian Communist Party. He experienced the entire “the oil is ours” campaign, but unlike Vargas,

he maintained a liberal stance on mining policy in Brazil. This was reflected in CVRD's new articles of incorporation.

The amendments to the articles of incorporation approved at an extraordinary general meeting of February 7, 1950⁴⁹ established that the company would be administered by a collective entity to plan and guide activities, monitor results and issue financial accounts, composed of CVRD's president and four directors, domiciled and resident in Brazil, elected at shareholders' general meetings.

The new articles of incorporation also established that the company would have an Administrative Division and a Financial Division as its central executive bodies. The directors of these divisions would be appointed by the company president, from among board members or otherwise, and would report to him directly. The position of general superintendent, reporting to the president, was maintained.

Given this new structure – in which it had less power over final decisions – Eximbank not only withdrew its representatives from CVRD's board, but also declared its intention to no longer participate on it. This decision made it possible, later in 1950, for company president Dermeval Pimenta to appoint Brazilian directors to fill the vacant positions.

With the resources obtained at the end of the 1940s, the company was able to intensify its program of construction work essential to operating the railroad, and extracting and exporting iron ore. In 1948, for the first time, the company made a profit, amounting to 4,214,592.63 cruzeiros.⁵⁰ In fact, this profit was significantly influenced by the recovery in international iron ore prices. The average price per metric ton on an FOB basis rose from US\$5.22 in 1947 to US\$6.67 in 1948.⁵¹

Growing exports of lump ore largely went to the United States. However, in an attempt to diversify its markets, sales were also made to Canada and Western European countries. The predominance

43 - *Idem*, *ib.*, p. 32, and Pimenta, Dermeval, *op. cit.*, pp. 117-118.
44 - For further information about this, see Fernandes, Francisco do Rego (org.), *op. cit.*, vol. 1, pp. 18-26, and Pimenta, Dermeval, *op. cit.*, pp. 149-150, 170-173, 217-228, 237-238, and 260-267.
45 - See Fernandes, Francisco do Rego (org.), *op. cit.*, p. 20, and Pimenta, Dermeval, *op. cit.*, p. 284.

46 - See Pimenta, Dermeval, *op. cit.*, p. 285.

47 - See the terms of the presidential order in the *Diário Oficial* of January 24, 1950, p. 1,179.
48 - Malin, Mauro. “Eurico Gaspar Dutra” entry. *Dicionário Histórico-Biográfico Brasileiro Pós-1930*. CPDOC/FGV. Available at: <<http://www.fgv.br/CPDOC/BUSCA/Busca/BuscaConsultar.aspx>>.

49 - Information about the reform of CVRD's articles of incorporation was taken from the *Diário Oficial* of March 8, 1950, pp. 3,330-3,332.
50 - See Pimenta, Dermeval, *op. cit.*, p. 273.
51 - See Kury, Mário da Gama, *op. cit.*, p. 35.



Panoramic view of the
Port of Vitória, Espírito Santo.

Men working at a CVRD mine in the 1940s.



of the American market was a direct reflection of affairs in the post-war period: with the European steel industry having been dismantled, in the short term the United States was practically the only market capable of absorbing CVRD's output.

Table 1 shows changes in the company's iron ore exports between 1942 and 1950, broken down by country, including the amount acquired by each country and its share of total sales.

TABLE 1
CVRD'S IRON ORE EXPORTS BY CONSUMING COUNTRY – 1942-1950 (METRIC TONS) ⁽¹⁾

COUNTRY	YEAR								
	1942	1943	1944	1945	1946 ⁽²⁾	1947 ⁽²⁾	1948	1949	1950
USA	-	-	-	-			227,397	316,406	588,106
%	-	-	-	-			59.03	73.40	81.48
Canada	-	-	-	-			84,943	71,820	74,574
%	-	-	-	-			22.05	15.22	10.33
England	35,407	62,928	127,194	101,694			-	-	18,491
%	100.00	100.00	100.00	100.00			-	-	2.56
The Netherlands	-	-	-	-			44,862	7,305	23,266
%	-	-	-	-			11.64	1.55	3.22
Belgium	-	-	-	-			28,050	17,396	7,315
%	-	-	-	-			7.28	3.68	1.02
France	-	-	-	-			-	29,020	-
%	-	-	-	-			-	6.15	-
West Germany	-	-	-	-			-	-	10,013
%	-	-	-	-			-	-	1.39
TOTAL	35,407	62,928	127,194	101,694	40,962	174,290	385,252	471,747	721,765
%	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

(1) In order to standardize the data in the table, all measurements presented in sources in British tonnes (1,016 kilos) were converted into metric tons (1,000 kilograms).
(2) For these years, the sources did not give the export destinations, but only the total figures.
Source: Board of Directors' Reports, 1943-1951.

CVRD's office building in Vitória, Espírito Santo, in the 1940s.



Growing sales also meant that CVRD accounted for an ever higher share of Brazil's total iron ore exports. In its first year of operation, 1942, the company accounted for a little over 11% of the country's iron ore exports, but by 1950, after some fluctuations, its weighting had risen to more than 80%. Table 2 shows CVRD's share of Brazilian iron ore exports, year by year, based on the country's and company's export data.

Despite prioritizing the exportation of iron ore, in 1947 CVRD began selling ore to small private steel companies that started to be set up along the Vitória-Minas Railroad. These included

Companhia de Ferro e Aço de Vitória (Cofavi) and Companhia de Ferro e Aço de Itabira (later called Acesita). In order to improve ore transportation operating conditions, a Railroad Study Center was established in Vitória in 1949, under the guidance of Eliezer Batista da Silva, an engineer. To train the center's technicians, foreign internships were provided.⁵²

52 - See Kury, Mário da Gama, *op. cit.*, p. 37.

TABLE 2
CVRD'S SHARE OF BRAZIL'S TOTAL IRON ORE EXPORTS

YEAR	CVRD (metric tons)	BRAZIL (metric tons)	CVRD/BRAZIL (%)
1942	35,407	316,033	11.2
1943	62,928	322,802	19.5
1944	127,194	205,798	61.8
1945	101,694	299,994	33.9
1946	40,962	64,413	63.6
1947	174,290	196,737	88.6
1948	385,252	599,289	64.3
1949	471,947	675,574	69.9
1950	721,765	890,125	81.8

Source: Board of Directors' Reports, 1943-1951.