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 Decreto-Lei 4.352, 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.

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

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.

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 Aracelio Alves and Mario 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 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.”

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In article 4 of the Statute to Establish Companhia Vale do Rio Doce aparece no ano de 1940, and in article 20 of the Organic Law of the Ministry of Industry and Commerce, the nationalization of mines and mineral deposits deemed essential to the country’s economic or military defense.

The Code of 1945’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 commercial sense; in other words, deposits themselves, plus their set of constituted property rights, the effects of exploitation, 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 day. 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 period 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 production, and the right to mining concessions would obligatorily depend on prior prospecting work, whose economic value was recognized by the DNPM. 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.

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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 special regulations on the payment of 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 prospect or mine deposits only if the concession was granted to Brazilian individuals or legal entities owned by Brazilian partners or shareholders. The functioning of mining companies would depend upon federal authorization, granted by the Ministry of Agriculture. To guarantee the implementation of the new Constitution, the federal government had to prove that the provisions of the Brazilian constitution, 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 scratched-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. The New State (1937–1945)

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 expiration of all permits and mining concessions, and for exploitable mines to begin production. A large-scale steel mill; and finally, the possibility of nationalizing the steel industry. Owing to two decisive roles in the struggle to build a major steel plant in Brazil. In 1935, the world was ever more divided between communists and capitalists – and Brazil had just left behind the so-called Communist Conspiracy, an uprising initiated in army barracks.

Itabira entered the 1930s with its contract finally legalized. However, so did not allow. At the beginning of the next decade, in 1935, the Ministry of Transport and Public Works, José Armando de Almeida, declared the contract void. This did not last for long: soon after the contract was restored and its termination was suspended. After being examined by various levels of the state, Itabira’s contract was submitted by Vargas to the Congress in May 1935. The executive branch then made the construction of a steel mill imperative 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.
Vargas’ nationalist message was echoed in Brazilian society. In Europe, Hitler was gaining more power and paving laws against Jews, making military service of more than one year obligatory for men, and expanding his army 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 ore was saved’.

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 quarry 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 Dinamizada Farinha, was published in full in Guinle, Guilherme et al., A Escola de Minas de Ouro Preto: o peso da glória, Brasília / Rio de Janeiro: Senado Federal / Casa de Rui Barbosa, 1984, vol. 2, pp. 27-59.

Concerning this issue, see Monteiro, Norma de Góes (org.), Ideias políticas de Arthur Bernardes, Brasilia / Rio de Janeiro: Instituto Brasileiro de Ciências Sociais, 1982, pp. 223-242. For further information, see Soares e Silva, Edmundo de Macedo, op. cit. Appendix VI, pp. XXIX-XXXVII.

The commission created by the Federal Foreign Trade Council also came out against approving Itabira’s contract. In February 1938, 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.13 In May, the National Security Council approved this proposal.14

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

In 1939, the Itabira Iron Ore Company’s contract, signed years before, was declared definitely void by Decree 1,907 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,15 and it also owned the majority of shares in the EFMV.

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 EFMV, and to operate the mines of Itabira. Accordingly, in August 1939, at the same time that Itabira’s contract was definitely liquidated by the government, Farquhar, now having the businessmen Gastão de Azevedo Vilela, Âlvaro Mendes de Oliveira Castro, José Monteiro Ribeiro Jr., Júlio V. Tênisca, Amélia de Oliveiro and Athos de Lemos as partners, founded the Brazilian Mining and Steel Company (Compagnha 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 Decreto-Law 2,351 of June 28, 1940 authorized it to incorporate the Vitória-Minas Railroad Company in exchange demanding the remuneration of the existing line and the construction of two new stretches.16

In July 1940, the CBMS began constructing the final stretch of the railroad, from Desembargador Drummond to Itabira, which would be completed in 1943. Following this, the Port of Vitória exported the first batch of iron ore (7,550 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 capable to be used directly in steel mills. In 1943, the company, together with the state government of Espírito Santo, began work on a special ore wharf in Morro do Atalanta, opposite the city of Vitória. At this time, the ore was transported in trucks from Itabira to Desembargador Vale |

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Drumond and, from there, by train to Pedro Bialuca, 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.18

In December 1941, a group of Brazilian businessmen, composed of Antônio Pereira Júnior, Edmundo de Castro Jupão, José Monteiro Kiboro, Álvaro Mendes de Oliveira Castro, Francisco F. Pereira, Geraldo de Andrade Maia, Marcus W. Thesing and Antônio de Morais, 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 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.19 This transaction, however, was never completed. The Washington Agreement, 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 Brasiliero (Caeté plant, Minas Gerais, 1931), Siderúrgica Barra Mansa (Barra Mansa plant, Rio de Janeiro, 1931) and Companhia Siderúrgica Belgo-Mineira (Molheira plant, Minas Gerais, 1937).20 Although production had undoubtedly been made,21 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 this late 1930s, the Brazilian steel industry was still small, based on the use of charcoal, a fuel whose extraction from the Cauê Peak region in Itabira, Minas Gerais; Governor Punaro Bley receives a delegation led by Afrânio de Mello Drumond and, from the start of the project, the company was the creation of a national steel industry, in the 1940s. Lisbon. The commission recommended constructing a plant to be administrated 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 foundries. In 1945, the US Steel Corporation would have the option to purchase 50% of the shares of the plant. The first steps to change this situation were taken in January 1939 when, at the suggestion of the Minister of Transport, João de Mendonça Lobo, President Vargas sent Lieutenant-Colonel Edmundo de Maredo 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.

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 Maredo Soares, Flora Caranhaide, Jôo Batista da Costa Pinto and Joaquim Arredondo.22 This mill would be prepared to ship out coal.23

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 Maredo Soares (the men 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 Vila Redonda, at the time a district of the municipality of Barra Mansa, in the state of Rio de Janeiro.24 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$50-million loan from Eximbank (Export-Import Bank), a US credit institution concerned with export and import business and international funding to acquire machinery. A general assembly held on April 8, 1941, Companhia Siderúrgica Nacional (CSN) was finally established, with paid-up capital of 350 million cruzeiros. In

19 See Pimenta, Dermeval, op. cit., pp. 94-95.
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 Vitoria-Minas and equip the mines of Itabira and the Port of Vitoria.

The package’s overall objective was to ensure the production, transportation and exportation 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 Vitoria-Minas Railway (DVM) 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 1945, a Special Commission to Register 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 Carlos Vargas issued Decreto-Lei 6.352 of June 3, 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 Ilhares de Mineração. The shareholders of Companhia Brasileira de Mineração e Siderurgia S.A. and Companhia Ilhares de Mineração, the shareholders of Companhia Brasileira de Mineração e Siderurgia S.A. and Companhia Ilhares de Mineração, the shareholders of Companhia Ilhares 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 stock options, 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, he participated in the negotiations for the Washington Agreements between Brazil, Great Britain and the United States which resulted in the expropriation of the Itabira Iron Ore Company and, finally, the creation of CVRD in 1942. During World War II, when he was appointed superintendent, he served as its president from 1943 to 1945.

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 a superintendent. Before the company was established, he participated in the negotiations for the Washington Agreements between Brazil, Great Britain and the United States which resulted in the expropriation of the Itabira Iron Ore Company and, finally, the creation of CVRD in 1942. During World War II, when he was appointed superintendent, he served as its president from 1943 to 1945.

Israel Pinheiro was an engineer from the Ouro Preto Mining School and worked in various administrative capacities 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 public office, heading the state’s transportation company, Companhia de Estradas de Ferro Minas Gerais, he was the first mayor of Belo Horizonte (1960-1961), and he later served as governor of Minas Gerais between 1966 and 1971.
To the right: busy operations at Cauê Mine in Minas Gerais, in 1943.

Previous page (top): the president of CVRD, Israel Pinheiro (in a white suit) and his delegation and the chairman are at the Port of Vitória in Espírito Santo. Previous page (bottom): iron ore being unloaded from ships at the Port of Vitória.
Ore being extracted manually and stored in straw baskets, to wagon in Presidente Vargas, Minas Gerais, in 1942, the year CVRD was founded. Opposite page: View of CVRD’s first ore pit in 1943, part of early exploration, between 1942 and 1946.
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 Vitoria–Minas Railroad, to be administered by Brazilian directors; and the other for the mines of Itabira, incorporated 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 Drummond and Itabira, develop the iron mines of Itabira, build a special pier, and expand the Port of Vitoria. 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 Parum, Kays, Brinckerhoff & Douglas (PKBD) was hired to produce technical studies and designs required to develop the mines and equip and remodel the EFVM. PKBD was also responsible for acquiring the necessary 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 the months. In addition, work on building the branch line between Desembargador Drummond and Itabira was begun. Finally, the first tracks were laid on the stretch between Desembargador Drummond and Itabira, and work to extend the railroad on the stretch between Desembargador Drummond and Itabira, and on the ore wharf in Vitoria continued.

On January 11, 1943, the assembly to definitively constitute Companhia Vale do Rio Doce was held in Rio de Janeiro. 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 belonged to Companhia Brasileira de Mineração e Siderurgia S.A. and Itabira de Mineração S.A. The initial value of the deal was 80 million cruzados. It was determined that CVRD’s administrative headquarters would be located in the city of Vitoria 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, representing Eximbank, and the Brazilians General Denis Desiderato Horta Barboza, who was appointed vice-president, and Major João Panaro Bley, the governor of Espirito Santo. The presence of Israel Pinheiro and Panaro Bley prominent figures on the political scenes of Minas Gerais and Espirito 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.
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
Dermeval Pimenta

Dermeval Pimenta (São João Evangelista, Minas Gerais, 1893 – Belo Horizonte, Minas Gerais, 1991) 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 Domínicos, 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.
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 FERD 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 2.5 million metric tons per year, exports destined for England, for example, rose from 35,406 metric tons in 1943 to 62,519 in 1945, 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.\footnote{See Kury, Mário da Gama, op. cit.}

Although the export figures oscillated, development projects in the Gouve 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 Gouve River Sugar Company (Companhia Açucareira do Rio Dourado), the latter in the municipality of Governador Valadares (Minas Gerais).\footnote{See Kury, Mário da Gama, Jornal da Vale, August 1991, p. 4.}

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

Focussed 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, so 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 their contracts. If, on the one hand, this decision reduced the pressure to export ore, on the other hand it left CVRD without renewal of equipment, although delayed, ensured a certain degree of operational continuity. By mid-1944, when the contract between CVRD and FERD 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 2.5 million metric tons per year, exports destined for England, for example, rose from 35,406 metric tons in 1943 to 62,519 in 1945, 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.\footnote{See Kury, Mário da Gama, op. cit.}

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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.
of Vitoria in Espirito Santo. During 1946, CVRD issued its third and final set of debentures as planned in 1944, amounting to 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 1945, Demerval Fimentera attempted to raise a new loan of US$7 million from Eximbank and issue new shares in the company. The loan negotiations extended into 1946, 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 rewriting 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 55% of exports were not sufficient to pay their balances. 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 expired up to September 1, 1946 was US$26.64 million, and the value effectively paid up added up to a mere US$548,016.23.\(^{46}\)

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 planted program.

Despite this 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

counsel 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 superservant. This demand was definitely rejected in January 1950, when changes mandated by President Euroco 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”

Euroco Gaspar Dutra was a career military official who had been the Minister of War between 1939 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 3.3 million votes (54.18% 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 stabilization years of the New State, the country was looking forward to times of democracy, peace and progress.

After the Cold War began in March 1945, 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 was also beset by the affections of his wife, Carmela Dutra – prohibiting gambling in Brazil. He also banned the Brazilian Communist Party. He experienced the “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, 1950\(^{48}\) established that the company would be administered by a collective entity in plan and guide activities, monitor results and issue financial accounts, composed of CVRD’s president and four directors, and to be elected by shareholders 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 lost power over final decisions – Eximbank no longer withdrew its representatives from CVRD’s board, but also declined its intention to no longer participate on it. This decision made it possible, in 1950, for company president Demerval Fimentera 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 4,214,950 cruzeiros.\(^{51}\) 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$2.25 in 1947 to US$6.67 in 1948.\(^{52}\)

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

\(^{43}\) See Fernandes, Demerval, op. cit., p. 285.

\(^{44}\) Idem, ibid., op. cit., p. 260.

\(^{45}\) See Fernandes, Demerval, op. cit., pp. 189-190, 176-177, 217-218, 237-238, and 247-248.

\(^{46}\) See Fernandes, Demerval, op. cit., pp. 1-21, and Demerval, Demerval, op. cit., p. 286.

\(^{47}\) For further information about this, see Fernandes, Demerval, op. cit., pp. 11, 119, 93, 99, and 123.

\(^{48}\) Diário Oficial, Brazil, on July 5, 1950, p. 3,330-3,332.

\(^{49}\) Information about the reform of CVRD’s articles of incorporation was taken from the Diário Oficial on March 23, 1950, p. 1,398-1,399.

\(^{50}\) See Fernandes, Demerval, op. cit., p. 270.

\(^{51}\) See Early Volta da Grande, op. cit., p. 35.

\(^{52}\) See Kury, Mário da Gama, op. cit., p. 349.
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>
<thead>
<tr>
<th>COUNTRY</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946(1)</th>
<th>1947(2)</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>227,397</td>
<td>316,406</td>
<td>588,106</td>
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<tr>
<td>%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>73.40</td>
<td>81.48</td>
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<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>84,943</td>
<td>73,820</td>
<td>74,574</td>
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<tr>
<td>%</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>22.05</td>
<td>15.22</td>
<td>10.33</td>
<td></td>
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<tr>
<td>England</td>
<td>25,407</td>
<td>67,328</td>
<td>127,194</td>
<td>105,094</td>
<td>-</td>
<td>-</td>
<td>18,491</td>
<td></td>
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<td>%</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>-</td>
<td>-</td>
<td>2.56</td>
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<tr>
<td>The Netherlands</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>44,822</td>
<td>7,305</td>
<td>23,266</td>
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<tr>
<td>%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11.64</td>
<td>1.55</td>
<td>3.22</td>
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<td>Belgium</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>28,050</td>
<td>17,396</td>
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<tr>
<td>%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.28</td>
<td>3.68</td>
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<tr>
<td>France</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,033</td>
<td>-</td>
<td>-</td>
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<tr>
<td>%</td>
<td>-</td>
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<td>-</td>
<td>10.013</td>
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<td>-</td>
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<td>West Germany</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6.15</td>
<td>-</td>
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<tr>
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<td>10.13</td>
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<tr>
<td>TOTAL</td>
<td>35,407</td>
<td>82,928</td>
<td>127,194</td>
<td>101,094</td>
<td>40,862</td>
<td>74,290</td>
<td>723,745</td>
<td></td>
<td></td>
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<tr>
<td>%</td>
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<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
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</tbody>
</table>

(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.
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.11

| 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 | 102,684 | 209,994 | 49.3 |
| 1946 | 40,582 | 64,413 | 63.6 |
| 1947 | 174,290 | 586,737 | 24.6 |
| 1948 | 385,251 | 599,289 | 64.3 |
| 1949 | 473,947 | 675,574 | 69.9 |
| 1950 | 721,765 | 890,125 | 81.8 |

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