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## Petrobras' Shigeaki Ueki

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# 'Brazil's growth proves that the Club of Rome is wrong'

*Mr. Shigeaki Ueki, the President of Petrobrás, Brazil's state oil company, granted the following interview to EIR's Latin America Editor Dennis Small on April 22, 1982. Mr. Ueki is a widely respected expert in the fields of energy and development. He served as Brazil's Minister of Mines and Energy from 1974 to 1979, before being named head of Petrobrás.*

**Small:** I would like to begin by asking you about the production goals of Petrobrás. As I understand, there is a goal for 1985 that is very ambitious. What is that goal and will you reach it?

**Ueki:** Our goal for 1985 is to produce 500,000 barrels per day. During the past three years we have attained a fairly reasonable growth from a production level on the order of 160,000 to 170,000 barrels per day. Today we are producing more than 260,000 barrels per day. At this rate of growth—and we expect to maintain it because of the new reserves we have discovered—we are in condition to reach 500,000 barrels.

**Small:** What exploration activities, in particular, are being carried out at this point?

**Ueki:** We are carrying out exploration in practically every sedimentary basin in the country, on-shore and off-shore. In the Amazon region, we are operating in the lower Amazon, the middle Amazon, and also off-shore in the delta of the Amazon river. We are in the basins of Maranhão, Seará, Rio Grande do Norte—we are producing oil and we have had further new discoveries in Sergipe and Alagoas as well as in Bahia. We also have our basin in Campos, which has been the most productive in the country.

**Small:** What about oil imports?

**Ueki:** Over the past three years we have been able to reduce oil imports by nearly 200,000 barrels per day. This reduction was made possible by the increase in domestic production and by the decrease in oil consumption in our country (as has occurred in many other countries around the world) as a result of a certain deceleration of our economy, and also because of the success the government

has had in substituting other sources of energy for petroleum—non-conventional, as in the case of alcohol, biomass, coal. In other words, we have gone from 950,000 barrels per day in imports to around 750,000 barrels per day currently.

Over the coming years, the growth in domestic production will be able to fully cover the growth in consumption. We can therefore say that the current import figure will be the maximum level for the next several years. There is a good possibility we will even be able to reduce that volume.

### The Club of Rome is wrong

**Small:** There has been much comment in the press concerning attempts by the Carter administration to halt the nuclear accord between Brazil and the Federal Republic of Germany. What is a little less known is that the Carter government, and even people still in power in the United States, had the broader intention of stopping the industrialization of any country in Latin America. Zbigniew Brzezinski, Carter's National Security Adviser, once told Mexican government officials in private, "The United States will never permit another Japan south of the border"—speaking of another industrialized country. What do you think of this in light of Brazil's ideas for modernizing itself?

**Ueki:** I do not believe that a man as intelligent as Brzezinski would have made statements of that nature. I think for the West's own security, it is important that the United States have strong allies. It is not possible to be a strong country without an intensive industrialization program. Of course, we must not overlook activities such as agriculture, minerals, and so forth. In fact, we must give high priority to agricultural production and mining. Brazil over the past 20 years has developed relatively high rates of growth, to the point of being almost a "miracle." We faced problems, and we still have problems. But I consider them crises of development. Thirty years ago we Brazilians made up 3 percent of the world population, and our economy represented on the order of 1 percent of the world economy. Today, we are still 3 percent of the world population, but our economy is now

nearly 3 percent of the world economy. Our job, our struggle has been one of increasing our participation in the world economy: from 3 percent we shall move to 4, from 4 to 5 percent. We Brazilians find that we not only have territory of continental dimensions, with mineral resources and so forth, but we also have a population prepared for that development. I believe that the most intelligent policy that countries friendly towards Brazil could pursue is to collaborate with and participate in our development process, so that the economy of the capitalist world can be increasingly strengthened.

**Small:** So the future of Brazil is to continue industrial growth. You reject the Malthusian theory of the Club of Rome that we have reached the "limits to growth?"

**Ueki:** I believe that the ideas of the Club of Rome on limits to expansion and growth, or the old theories of Malthus, are a certain form of pessimism. And the best reply, in my opinion, is the development we have had in our country and of many other countries similar to Brazil in recent years. As the cultural level of the population increases, there is a decrease in the rate of growth of population. We are at an intermediate stage of development, and because of this fact we have registered a population growth rate that is greater than countries that are even less developed. As you know, the least developed countries have growth rates of around 2.2 or 2.3 percent, because of the high rate of infant mortality and the relatively short life expectancy. Countries in an intermediate state of development, such as Brazil, Mexico, and others, have growth rates of 2.8 or 2.9 percent, due to the fact that the infant mortality rate is less and life expectancy is greater.

But later, with the increase in the cultural level—and we have the example of many countries—that growth rate which reaches almost 3 percent and in some cases exceeds 3 percent, begins to experience a certain decline. Brazil is already on the downward curve of population growth, so much so that the latest statistics indicate that our population is now growing at a rate 2.4 to 2.5 percent. To get to 2 or 1.5 percent, as would be desirable, I think that we should increase our investments in education, in the improvement of the cultural level of our people, and the growth rate will fall naturally to around 1.5 to 2 percent.

We do not expect and we do not believe, because of our ways and the kind of country we are, that we will face a problem similar to that of Germany or other countries where there is zero population growth.

**Small:** Brazil is a country with enormous economic development potential, a country the size of the continental United States, yet with only half the population. Evidently, the problem with Brazil is not overpopulation.

Yet there are those who say that the main problem with the development of the Third World is that there are too many people. Do you believe this theory?

**Ueki:** No. I do not believe that the Third World's problem is overpopulation. The Third World's problems have many causes: the educational and cultural level of the population; in some countries it is a problem of natural resources; in other cases, unfavorable geography. But above all it is a problem of people, of developing people. We think that, not only in the case of Brazil but in other underdeveloped countries as well, that we should, first of all, pay great attention to the nutrition of children—the consumption of protein—so that as they grow, they can have brains prepared to receive new knowledge. We know today that a person poorly nourished during the first years of life, suffers with a relatively damaged brain and does not have the ability to absorb new knowledge. This may seem like a somewhat inhumane consideration—but the return on investment in those generations is relatively low. What we should do is do everything possible to increase food production and nourish *well* the new children that are born every day, so that they will be fully capable of acquiring new knowledge and capable of becoming a crucial factor in our progress.

I believe in progress based solely on man. It is not possible to have a developed country with underdeveloped people. Once the population is normally developed, it is possible to develop countries with otherwise unfavorable conditions. Just imagine Brazil's case, if we had well-developed men in a country with the potential we have today. We have the potential to become a developed country within a period of time much shorter than the most optimistic projections.

One of the programs that we have expanded the most has been the school meal program. Twenty, thirty years ago Brazil did not have a school nutrition program, but today tens of millions of children receive basic nutrition in the first years of their lives. I am certain that this generation will be better than mine.

### **The effect of Volcker's policies**

**Small:** One of the obstacles to Brazil's development and that of all Third World countries are the conditions of economic recession prevailing in the advanced sector. The United States at this moment is not a good economic development partner for countries like Brazil, because of our own depressed economic conditions. In this light, what do you think of the policies of the Chairman of the U.S. Federal Reserve, Paul Volcker, and the high interest rates that have been maintained up to the present, in terms of the effects on the United States and the repercussions on Brazil?

**Ueki:** In the first place, I think that the policy adopted by the American government for fighting inflation is a

correct one. I think that the government of President Reagan is doing well on this matter. The inflation rate in the United States has fallen. This is important because the dollar is the reserve currency for the entire world, and if the leading currency in the world manifests a high degree of instability because of American inflation, the world is in jeopardy. Therefore, the American government had to adopt a relatively severe policy of controlling monetary expansion, which in turn caused a recession in your economy and increased the interest rates, as well as unemployment rates. I believe that these negative statistics—the inflation, the unemployment—will be temporary. With the fall of inflation and, above all, with the more positive and realistic attitude of the unions, the Reagan administration is having success in obtaining a more stable economy with development that is more realistic and less artificial—in other words, not based on inflation, but in accordance with the real potential of the United States. We cannot speak only of the negative aspects of unemployment, the large deficits of the Treasury. We have to look at the structural changes that are taking place. I think that the most important factor that will have repercussions not in one or two years, but for tens of years, is this realistic, positive attitude on the part of American unions: that in order to compete with other countries, there must be an increase in productivity, that there cannot only be demands for wage increases. All this is going to be highly positive.

Clearly, with the recession in the United States and the high interest rates we are creating for countries like Brazil, we have very serious problems. Our debt service is more costly than our oil imports. And this worries us. But we do not believe that high interest rates will be eternal. There will come a time when the interest rates will become coherent with the fall in the inflation rate. It will be a natural consequence of the drop in inflation.

Therefore, we should resist those negative aspects that we have today in the Third World. On the other hand, the American recession did lead to a 1 percent drop in world trade last year, not in the United States but in Europe also. Yet even during an unfavorable year we Brazilians were able to expand our exports by 15 percent while the rest of the world fell by one percent. This year we are seeking to repeat the same thing. To export well in a favorable conjuncture is easy; to export in an unfavorable conjuncture requires more work, more adeptness. We think we are capable of this.

**Small:** For 1982 the conjuncture is going to be even worse than it was in 1981; there is going to be a worse collapse in world trade. However much longer can this Brazilian policy of exporting to a world in recession continue?

**Ueki:** World trade may well suffer a new decline in 1982,



*Petrobrás headquarters in Rio de Janeiro.*

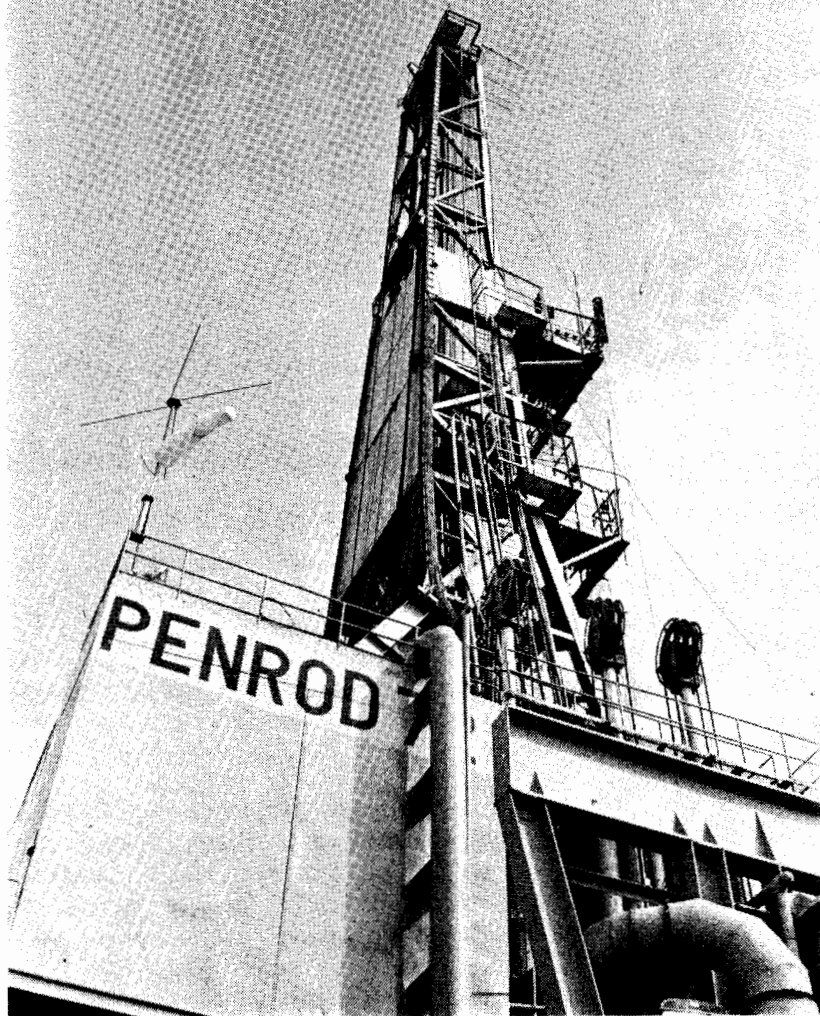
NSIPS/Dennis Small

for two reasons: the recession, and a general decline in prices. Volume of trade may remain constant, or even increase over last year, but in value it could be less. But we should also be realistic. The increase in world trade in the past was largely influenced by inflation. The inflation in the United States was a terrible thing, in real terms. If one really looks at what the inflation was in the United States over the past 15 years, it was a terrible thing. And since the dollar is the reserve currency of all countries, everybody paid for American inflation. So if that inflation falls, as it is now doing, we are creating the basis for sustaining the economy on a more favorable footing. We may have a temporary boom, an economy highly favorable to everyone, with 15 percent inflation in the United States. But I think that with that policy, the chances for a world disaster would be much greater than with the current policy—even with the recession of 3 or 4 percent in the United States—of negative 1 or 2 percent growth in world trade.

### **The world oil market**

**Small:** Let's talk a little about oil markets. The enormous increase in the oil price since 1973 caused a serious economic crisis in non-oil-producing countries in the

## Petrobras: fuel for industry



NSIPS/Dennis Small

As the state sector oil monopoly with 1981 sales of \$22 billion, Petrobras has long been a principal bastion of the pro-development faction in Brazil that seeks to modernize that nation as quickly as possible. Former President Gen. Ernesto Geisel (1974-1979), for instance—whose administration was most consistently based on this “Big Brazil” philosophy—was President of Petrobras earlier in his career, and to

this day retains a strong power base there. Petrobras’s current president, Shigeaki Ueki, is close to Geisel and, as his interview with *EIR* demonstrates, shares a strongly pro-development outlook. For these reasons, Petrobras has been a special target of the City of London and related financial interests, that would dismantle this centerpiece of Brazil’s powerful state sector in order to impose policies of zero growth.

*Petrobras’s Enchova offshore oil platform, Texas company.*

Petrobras, however, remains strong and growing. In 1981, it increased domestic oil production by 17.3 percent over 1980, achieving a level of over 260,000 barrels per day by the end of 1981. Although this constitutes only about one-quarter of the country’s total consumption, Petrobras engaged in significant exploration and drilling activity in 1981 which hold excellent prospects for further growth in production. Ueki projects domestic production of 500,000 bpd by 1985, which is of great significance to Brazil in its efforts to balance its trade account.

Although a relative newcomer to the field (it was founded in 1953), Petrobras is scoring important successes in exploring for oil. In 1981, of 148 new wells evaluated, 12.7 percent of those drilled on land were found to produce oil, and 8.6 percent of those drilled offshore were successful. Petrobras has also established risk contracts with foreign oil companies since 1976—22 new risk contracts were signed in 1981—but of these so far only one has struck oil in quantities believed to be commercial.

Petrobras’s biggest growth area is the offshore fields in the Campos Basin, located about 70 miles off the coast of Brazil just north of Rio de Janeiro. Production in this basin alone now tops 100,000 bpd.

This journalist was given a helicopter tour by Petrobras of this offshore area, including the Enchova platform and the port town of Macaé. Macaé was a fishing village of 30,000 until 1976, when Petrobras struck oil offshore. Over the succeeding six years Macaé’s population has grown by 50 percent, and the Petrobras personnel, both Brazilian and foreigners, have brought a total revolution to the area. Contrary to the views often presented in U.S. media, this journalist found the local residents that he talked to excited and grateful for the development Petrobras had brought to their region.

The Enchova platform has about 80 workers and engineers on it, three-fourths Brazilians, one-fourth foreigners (principally Americans), and it was leased to Brazil by Penrod, an American corporation based in Brownsville, Texas.

Third World. Now the drop in oil prices has caused an enormous crisis in the oil-producing countries that depend on oil income. The case of Mexico is well known. Nigeria stopped importing for a period. How can we put some order in the international oil market?

**Ueki:** It is very difficult, given today's realities. In the past there was a certain amount of order due to the massive presence of the integrated oil multinationals, the famous Seven Sisters or Majors, who dominated production, transport, refining, marketing. During the 1960s there began to emerge state companies among the oil-consuming countries, independent refineries, shippers—all leading to the situation in which an industry dominated by a handful of integrated companies became the site of competition in each of its segments of the industry. And today we have large firms that only produce petroleum, others that only transport, and others that distribute. So oil increasingly became a commodity that suffered—still suffers—the influences of all the features, positive and negative, of the world situation by being the most important strategic raw material, since in modern economies it accounts for between 10 to 15 percent of the gross national product of every country.

So, to seek order in the world oil market and return to the 1950s or 1960s would be, in my opinion, a dream. There is today an organization, OPEC, which seeks to limit supply. In the same way there are organizations to support the price of coffee, sugar, cocoa, tin, and so on. In the case of oil, there are much greater chances for success in controlling supply and maintaining production, as we are seeing. Because if we were to let the normal laws of the market operate, the price of oil would not be \$34 per barrel. It would probably be much less. But because of the success in limiting production and supply, the price continues more or less at \$34 a barrel. Only when a country outside of OPEC with no obligation to limit supply increases world supply, or when certain countries in OPEC stop adhering to the official limits imposed by OPEC, will there be the possibility of a drop in price—not to the levels of before, but to a price well below what we now see.

I think that in this decade, the 1980s, above all because of the new discoveries of oil in almost every country in the world, we will have a relatively abundant supply of oil, and that chances for new price increases are small—at least for the next four or five years. It is possible that in real terms the price will fall.

**Small:** What do you think of the proposal of Mexican President José López Portillo for a world energy plan to put order in the oil markets and as a transition to the energy of the future?

**Ueki:** I believe that it is a valid proposal. I agree fully with the proposal of President López Portillo. Now, *how* to make such a proposal effective is another question.

Above all, it would be necessary for the principal consuming countries and the main producing countries to sit down at the same table. In other words, if producers responsible for 80 percent of world output and consumers accounting for 80 percent of the demand reached an agreement to establish certain price stability, and then later that there be a natural shift to new energy sources, then there would be the possibility. But for that, we would need a tremendous amount of diplomatic work. And after seeing how some countries behave—because I was a minister for five years—I am a little skeptical about the possibility for an international accord towards such a goal. But I agree that it would be desirable for producing as well as consuming countries.

But interests tend to clash. Just as an example, there are producers who would not like to see oil prices increase to the extent that alternative energy forms substitute for oil too quickly. They have oil for many decades and they would like to have a market for it. Then there are other producers who are heavily populated but have limited reserves; they would like to sell their oil in the shortest period possible at 10 or 20 times the present price in order to have funds sufficient to build a country for the post-oil era. So even among producers the situations differ. Among consumer countries also. There are countries like ours which are borrowers of money on the international financial markets. We pay interest on our loans. We would like to have, if possible, oil at \$10 a barrel, or even cheaper, so that we can continue investing and developing without having to borrow so much on international markets.

These are just some of the differences, so you can see how difficult it will be to realize the proposal of President López Portillo which, from a moral or even economic point of view, is more than justified.

**Small:** Do you have any final comments for the readers of *Executive Intelligence Review*, prior to the visit of Brazilian President Figueiredo to the United States, in terms of the relations between our two countries?

**Ueki:** I think that relations between the United States and Brazil have always been good and will tend to constantly improve. To a certain extent, our two peoples, Brazilians and Americans, think similarly on a range of things. We are both, for example, profoundly anti-Communist, anti-socialist, we believe in private enterprise, we believe in the possibilities for constantly improving living standards, have societies with great vertical mobility, without castes.

In sum, we are two peoples who think, act, and have concerns in common. We have similarly-sized countries, and relatively young countries. So I only see our relations becoming even closer. I believe that the visit of President Figueiredo will be very important for these relations.