

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.,
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

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ASSINATURA

Mr. Raymundo Mascarenhas
Executive Vice President
Companhia Vale do Rio Doce
26 Av. Graca Aranha
20005 Rio de Janeiro
Brazil

M. J. A. Silva
M. J. A. Silva (Signature)
(cc: VP/DEGM/DEFS)
ACQ. GEN. 1200
L. C. de C. A.
17.04.86

Re: BRAZIL--Carajas Iron Ore Project (Loan 2196-BR)

Dear Mr. Mascarenhas:

We would like to thank you and your staff for the cooperation extended to Messrs. Davies, Franz and Kotschwar, and Ms. Koch-Weser during their recent missions in Brazil. The financial director's secretarial staff deserve particular praise for their patient and efficient logistical support.

The mission has reported that project work is progressing very well and that the Carajas mine is scheduled to start production at 15 million tpy on April 1, 1986. The two construction areas which are presently given particular attention by project management are the bucketwheel at the mine and the breakwater in the port. For the bucketwheel stacker/reclaimer at the mine, which is on the critical path, CVRD has made alternate arrangements to ensure the material flow in case erection is not completed by April 1, 1986. The present shape of the breakwater creates eddy currents which cause silting in the port and requires dredging. To prevent further silting of the basin, the breakwater will be modified by relocating a portion of it at an angle to the present structure. SUCAR has pointed out that these works will not interfere with the activities in the shiploading area.

Regarding the domestic iron ore pricing study we have requested SUBIN by separate telex to send to us the final reports, which CVRD prepared in draft form some time ago.

The Amerindian project component continues to cause concern and requires close supervision by CVRD and the Bank. The presence of squatters in the Mae Maria reservation remains not only unresolved but reportedly has escalated and implementation of the Amerindian component by FUNAI is far behind schedule. We understand that CVRD will temporarily stop disbursements for the Amerindian component to FUNAI until current shortfalls in carrying out the program would be corrected. We are pleased to note that CVRD's environmental and Amerindian activities are being reconsolidated under the responsibility of your environmental office.

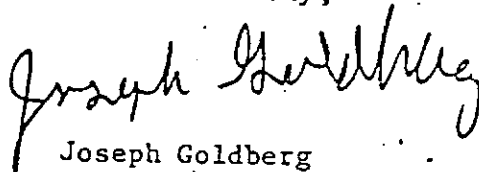


We understand that spontaneous and unplanned urban development continues unabated around Parauebas. Reportedly, industrial investments are also forthcoming, mostly related to pig-iron. We share CVRD's concern that the current and prospective influx of new people and industries will inevitably increase the demand for services well above the levels for which the project's townsites component was designed, with attendant declines in efficiency and the quality of life. It would seem highly desirable that a land-use plan be prepared by the competent state and local authorities, without further delay. A Bank mission is currently in the field, reviewing the project's townsites component with CVRD staff. Upon the mission's return, we will be glad to share with you their findings and recommendations.

Regarding the current mission schedule for the rest of 1986, we are planning (i) a visit to CVRD by our environmental officer in late April/early May; (ii) an in-depth review of all aspects of the Amerindian project component starting in late May; and (iii) the next project review mission by the mining and non-ferrous metals division during October or November.

Recently, dramatic changes in Brazil's economic policies were announced. We would appreciate if you could inform us about the likely impact--immediate, short- and medium-term--these measures will have on CVRD's financial position and operating prospects.

Yours sincerely,



Joseph Goldberg
Chief

Mining and Non-Ferrous Metals Division
Industry Department

cc: Ambassador Luiz Felipe Lampreia
Secretary, SUBIN
Secretaria de Planejamento