

**VOLKSWAGEN**

AKTIENGESELLSCHAFT



# VW do Brasil in the Brazilian Military Dictatorship 1964-1985

**A Historical Study**

Christopher Kopper



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University of Bielefeld  
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1.	Introduction	5
2.	From the founding of VW do Brasil to the military coup on March 31, 1964	9
3.	VW do Brasil and the military coup on March 31, 1964	17
4.	Industrial relations at VW do Brasil during the dictatorship	23
5.	The development of VW do Brasil during the Brazilian Economic Miracle (1968-1974)	35
6.	VW do Brasil and the persecution of political opponents of the military regime	49
7.	Pay and working conditions at VW do Brasil in the 1960s and 1970s	61
8.	The strikes of 1978, 1979 and 1980	67
9.	Change in economic crisis: the democratisation of industrial relations at VW do Brasil in the early 1980s	83
10.	VW do Brasil as a major land-owner, and the social and ecological consequences: the Rio Cristalino project	95
11.	Franz Stangl: a concentration camp commandant as an employee of VW do Brasil	105
12.	Results	111



# 1. Introduction

This study was commissioned in response to recent events. In 2014, a detailed report by the Brazilian Truth Commission revealed to the country the extent of human rights violations and political murders during the period of military dictatorship 1964-1985. The report confronted VW do Brasil with allegations of collaboration with the Political Police and of discrimination against trade union activists. When trade unionists filed a civil suit against VW do Brasil with the Justice Ministry of São Paulo state in September 2015, the news was picked up by Latin American information services and German media correspondents, and reached the German public.<sup>1</sup>

Group board member for integrity and legal affairs Dr. Christine Hohmann-Dennhardt commissioned a comprehensive investigation into the allegations in November 2016. Although VW do Brasil's shared responsibility for human rights violation is at the heart of this study, its involvement in political repression by the military regime is not considered in isolation from the economic development of the company. This study also considers the general relationship of VW do Brasil managements and of the German parent company to the political leaders of the dictatorship, and examines the economic interests, colonialist ideas and political stereotypes, as well as the structures of economic opportunity, which determined patterns of behaviour in relation to, and within, the dictatorship. It also aims to show how the management of the former Volkswagenwerk AG in Wolfsburg perceived developments at their Brazilian subsidiary, and the point from which – and the reasons why – the management board committed to creating a democratic and participatory corporate culture at VW do Brasil.

1

For example, a Spiegel Online headline on November 1, 2015 read: "VW will Verwicklungen in brasilianische Diktatur aufarbeiten" [VW seeking to reappraise involvement in Brazilian dictatorship], (<http://www.spiegel.de/wirtschaft/unternehmen/volkswagen-in-brasilien-vw-will-diktaturgeschichte-aufarbeiten-a-1060622.html>, accessed June 16, 2017).



2

In this regard refer to the excellent overview by Sebastian Brünger in “Geschichte und Gewissen: Der Umgang deutscher Konzerne mit ihrer NS-Vergangenheit” [History and conscience: the response of German companies to their Nazi past], Göttingen 2017. Knud Andresen has written a paper on the relationship of German car manufacturers to South Africa’s Apartheid regime (“Moralische Ökonomie: Bundesdeutsche Automobilunternehmen und Apartheid” [Moral economics: German car companies and Apartheid], in: *Zeithistorische Forschungen/Studies in Contemporary History* 13 (2016), issue 2, pp. 231-253). Regarding VW in South Africa refer also to Claudia Nieke, “Volkswagen am Kap: Internationalisierung und Netzwerk in Südafrika 1950 bis 1966” [Volkswagen on the Cape: Internationalisation and networking in South Africa 1950 to 1966], Wolfsburg 2010, though that paper deals to a lesser extent with the response of VW to the Apartheid regime.

During the 1960s VW do Brasil grew into the Volkswagen Group’s biggest member-company outside Germany, and became the fifth-largest industrial concern in Brazil. An extensive study of the history of VW do Brasil will reveal the importance of the Brazilian subsidiary to the economic development of VW AG. Linked to this are the fundamental questions of whether VW – thanks to its position as a highly dynamic business, and being the largest foreign industrial corporation in Brazil – was able to enjoy special privileges in terms of tax breaks, subsidy policy and foreign exchange laws in the context of the Economic Dependency Theory, or whether the Brazilian government was able to assert what by today’s standards would have been a high degree of market regulation and control over the appropriation of corporate profits.

A key question in this context is whether VW do Brasil profited not only from the dictatorship’s economic policies, but also from its domestic and legal policies. The Brazilian military dictatorship abolished basic employees’ rights such as the right to strike, replaced the freedom of employers and employees’ representatives to negotiate pay rates by a state-controlled wage structure, and suppressed the organised labour movement up until 1978. These major restrictions of fundamental social and economic rights did not remain without consequences in terms of wage trends and the working and living conditions of the workforce.

This study is the first publication to appraise the behaviour of a German company in a post-war dictatorial regime. While numerous empirically fruitful and well-designed studies have been produced over the last 30 years in relation to the conduct of German companies during the era of National Socialism, the relationship of German companies to right-wing dictatorial regimes in Southern Europe, Latin America, Asia and Africa has been little studied to date.<sup>2</sup>

Compared to the extremely extensive, thematically and methodologically very wide-ranging research into National Socialism, research into the Brazilian military dictatorship remains little advanced. While mainly American economists have studied the macro-economic development of Brazil, and political scientists have detailed the developments in police repression policies and the gradual return to the rule of law and pluralism since 1979, there has been as yet little research into Brazil’s social history and the development of corporations in the country during the military dictatorship. It was as recently as 2014 that the National Truth

Commission instigated by the Rousseff government published a detailed report on political persecution and the collaboration of state and non-state actors with the Political Police.

Although the files of the Political Police provide some insight into the collaboration of company security services with policing bodies, the extent of that collaboration can be estimated but not reconstructed in full, as an unknown quantity of files have been destroyed. The files of the Political Police in São Paulo state were held – from the time of the organisation’s abolition in 1982 until they were transferred to the *Arquivo do Estado de São Paulo* [São Paulo state archive] in 1994 – in the custody of the Police Commissioner, who until 1982 had commanded the Political Police, and so had no great interest in providing the world with a complete legacy after his departure.<sup>3</sup>

The Corporate History Department of Volkswagen AG has made a major contribution to this study. Special thanks go to Dr. Ulrike Gutzmann, who comprehensively searched through all the key files in the Group archives relating to VW do Brasil, as well as providing excellent working conditions for evaluation of the files. Thanks also go to the General Works Council of VW for giving consent to inspect its historical records. And thanks are also due to the Group board members for integrity and legal affairs, Dr. Christine Hohmann-Dennhardt and from February 2017 Hiltrud Werner, who supported the research not only through their funding, but also through their personal interest.

Although VW do Brasil has in recent decades destroyed almost all records of historical significance on expiration of their statutory retention periods, the staff of the Corporate History Department has made every conceivable effort to locate documents from company and state archives. Most sincere thanks are due to archivist Clarice Caires, who has been building up the VW do Brasil archive since 2013, and who was a great help in evaluating Political Police files in the São Paulo state archive. Thanks are also due to Andre Senador and Daniel Tadashi, who have supported the project actively and without reservation, and who showed the author the rightly famous Brazilian hospitality. Susanna Berhorn de Pinho translated innumerable documents into German, saving the author the trouble of having to get by with his only recently acquired knowledge of Portuguese.

3

Regarding the handover of the Political Police files refer to Maria Aparecida de Aquino et al., “O dissecar da estrutura administrativa do DEOPS/SP”, São Paulo 2002; idem. et al., “O DEOPS/SP em busca do crime politica: Família 50”, São Paulo 2002.

2. From the founding of VW do Brasil  
to the military coup on  
March 31, 1964

The history of VW do Brasil began on March 23, 1953, at a time when the Volkswagenwerk GmbH was just establishing itself on export markets outside Europe. It was on that day that Volkswagen GmbH in São Paulo founded Umitada GmbH as an operating company to assemble the VW Beetle (designated internally as the Type 1) from single components at the premises of Brazilian corporation Brasmotor.<sup>4</sup> In July 1954, after Brasmotor had terminated the contract, the shareholders' meeting of the then VW GmbH approved an amount of five million Deutschmarks for the purchase and redevelopment of a proprietary assembly plant in Brazil.<sup>5</sup> But it was not until 1955 that the legal framework for a more substantial direct investment was established between the Brazilian government and the German federal government. On July 12, 1955 VW founded a Brazilian subsidiary in the legal form of a stock corporation (VW do Brasil Sociedade Anonima) and took over the assembly plant in São Paulo.

The assembly plant on Rua do Manifesto in the Ipiranga district was the first site to assemble Volkswagens outside Germany. The decision to establish the first international production facility in a still mainly agricultural country outside Europe was influenced by a number of considerations. Although the Brazilian car market at that time was still small, Brazil offered significant potential for economic growth as the largest single market in Latin America. Since Latin American countries had been enjoying rapid economic growth both during and after the Second World War based on the increased demand for agricultural products in the USA and Europe, Brazil – alongside Argentina – was seen as a major industrial centre of the future.

The key reasons behind the decision to import VW Beetle components into Brazil as CKD (*Completely Knocked Down*) kits for assembly in-country related to trade policy. In view of the high import duties on ready-assembled vehicles, it made financial sense to relocate the assembly process to Brazil. Since international payment transactions were regulated by government-set exchange rates, and the Brazilian government differentiated between economically essential and non-essential goods, the exchange rate for vehicle components was 40% lower than for complete vehicles.<sup>6</sup> The major advantages in terms of duties and exchange rates balanced out the disadvantage that VW do Brasil assembled only 2,268 Beetles and 552 VW vans (Type 2) from 1953 to 1957, and productivity was initially low because of the low volumes.

Right from the time VW do Brasil was established, VW General Director Heinrich Nordhoff (1899-1968) had considered building a full manufacturing plant in Brazil, but he did not want to commit to a medium-term plan in view of the uncertain

4

A brief summary of the early history of VW in Brazil can be found on the VW do Brasil website ([www.vwbr.com.br/ImprensaVW/page/Historia.aspx](http://www.vwbr.com.br/ImprensaVW/page/Historia.aspx), accessed on May 11, 2017). Refer also to the disclosures as to the initial capital in the VW Archive Wolfsburg (UVW), 69/345/1. The work by Volker Wellhöner, "Wirtschaftswunder', Weltmarkt, westdeutscher Fordismus" ['Economic miracle', global market, West German Fordism], Münster 1996, pp. 259-296, is still fundamental to the history of VW do Brasil through to the early 1960s.

5

Helen Shapiro, "Engines of growth: The state and transnational auto companies in Brazil", Cambridge 1994, p. 78f.; Wellhöner, "Westdeutscher Fordismus" [West German Fordism], pp. 269.

6

Helen Shapiro, "Engines of growth", pp. 48-51.

7

Wellhöner, “Westdeutscher Fordismus”  
[West German Fordism], pp. 269f.

sales forecasts and the unpredictable political situation in the country. However, in 1956 the Brazilian government’s very determined industrialisation policy forced VW to make a quick decision in favour of building a complete car factory in Brazil. Notwithstanding his persisting scepticism as to the chances of success for a complete car factory, the alternatives Nordhoff faced were either to invest in a full manufacturing facility or to give up on the Brazilian market permanently. The so-called Target Plan of the democratically elected government of Juscelino Kubitschek in 1956 set forth the goal of establishing a fully operational domestic automotive industry by 1960, and replacing almost all imports of complete vehicles or CKD kits by cars and trucks from domestic production. To manage this programme of industrial autonomy, the Brazilian government established an inter-ministerial steering group for the development of the automotive industry (*Grupo Executivo da Indústria Automobilística – GEIA*). It laid down binding rules for the industry, which at the time was almost exclusively in foreign hands.

The plan to build a domestic automotive industry was not a stand-alone element within Brazil’s economic policy, but rather formed the cornerstone of a highly ambitious development programme. The newly elected President Kubitschek tagged this development programme with the populist slogan “50 years of progress in a 5-year term”. The most visible element of the development programme was the construction of the new capital city Brasilia in the geographic centre of the country – an undertaking which drew worldwide acclaim thanks to its futuristic architecture and urban planning concept.

The General Plan of the GEIA for Brazil’s auto industry demanded no less than that by July 1, 1960 manufacturers should be building all passenger cars from a minimum of 95% locally produced components. The target for vans and commercial vehicles such as the VW Transporter was an only slightly lower 90%. VW and the other foreign auto makers on the Brazilian market, such as General Motors, Willys-Overland and Ford, were faced by the decision either to invest in complete manufacturing facilities or to abandon the Brazilian market. As the 95% local content quota also applied to supplies by other companies, large German auto component suppliers such as Bosch also established facilities close to their customers.

In view of the fact that the São Paulo assembly plant was situated in a densely built-up area, and could not be extended, in 1955 VW do Brasil acquired a large site 20 km to the south, in the industrial town of São Bernardo do Campo, which was suitable for the construction of a complete auto plant.<sup>7</sup> Thanks also to other foreign vehicle manufacturers such as Willys-Overland, Ford, Mercedes-Benz and

Scania opening facilities there, the town of São Bernardo do Campo, which had thus far been predominantly home to furniture-makers, grew into the centre of the Brazilian auto industry (*Capital do automóvels, or auto capital*) – in a sense, the Detroit of Latin America. The VW plant had no rail link, but was situated directly on the Via Anchieta, the road linking the São Paulo conurbation with the port city of Santos, which was gradually upgraded to become a crossing-free highway. VW do Brasil initially relocated its Transporter operation to the only partially completed new facility, where production began on September 2, 1957. Fully operational status was attained on January 3, 1959 with the start of production of the Beetle. At that time VW do Brasil was still sourcing its engine from Germany. As Brazilian component suppliers were unable to fully keep pace with the required growth, the 95% local content target was still not being met by mid-1960. On June 30, 1961 the local content of the VW Beetle reached 92%, while that of the VW Bulli even reached 94.6%.<sup>8</sup> The GEIA penalised VW do Brasil for this failure to meet its targets by imposing an import tariff of 90% rather than 5% on engine components, with effect from the start of 1962 until such time as all its engines were manufactured from local content.<sup>9</sup>

The Brazilian government expected to see a big boost to growth from the new VW plant, and hoped that VW's strong commitment would break the dominance of the US companies General Motors, Ford and Chrysler in the Brazilian auto industry. Consequently, President Kubitschek attended the official opening ceremony of the facility on November 18, 1959 in person. VW General Director Heinrich Nordhoff had also come from Germany specially for the occasion. Photographs of Kubitschek and Nordhoff riding through the factory together in an open-top VW convertible past an honour-guard of rejoicing workers were printed in the Brazilian press, and brought VW considerable public prestige. The President's participation in the opening ceremony served as a symbolic validation of VW do Brasil by the nation's head of state which was important in raising the company's standing.

The high investment cost in the VW São Bernardo plant was mitigated by a bundle of trade, foreign exchange and credit policy incentives. The Brazilian administrative body overseeing foreign exchange and credit (*Superintendencia da Moeda e do Crédito* – SUMOC) exempted auto manufacturers from the obligation to pay an advance deposit, subject to interest charges, on their equipment and machinery imports. In the growth period of the Brazilian auto industry in the late 1950s and early 1960s, imports of capital goods by foreign investors such as VW were exempted from duties. Whereas importers normally had to purchase their imports by auction from SUMOC at an exchange rate above the official rate parity, VW do Brasil received a portion of the required DM amounts for machinery imports from

8  
Shapiro, "Engines of growth", p. 252; cf. UVW, 1184/355/3.

9  
Wellhöner, "Westdeutscher Fordismus" [West German Fordism], p. 288.

10  
Shapiro, "Engines of growth", p. 52; regarding Brazilian foreign exchange policy up to 1961 refer to the standard work by Werner Baer, "The Brazilian Economy: Growth and Development", Boulder 2008, pp. 55-60.

11  
Shapiro, "Engines of growth", pp. 142f. Up to 1960 the US Dollar exchange rate was DM 4.20; from 1960 to 1969 it was DM 4.00.

12  
Ibid., p. 145-148.

13  
Calculated according to the information contained in Shapiro, "Engines of growth", pp. 152f; and the exchange rate chart des Institute of Brazilian Business & Public Management Issues at George Washington University, Washington DC ([www2.gwu.edu/~ibi/database/Exchange\\_Rate\\_1954-present.pdf](http://www2.gwu.edu/~ibi/database/Exchange_Rate_1954-present.pdf), accessed May 11, 2017). All further amounts in Cruzeiros have been converted into Dollars on the basis of that table, and into DM using the exchange rate statistics of the German Bundesbank.

14  
Inflation rates according to Baer, "Brazilian Economy", p. 410.

15  
Wellhöner, "Westdeutscher Fordismus" [West German Fordism], pp. 283-286.

16  
In view of the major inequalities in Brazilian society in terms of income, assets and educational opportunities, and the long-standing lack of social mobility, the term is appropriate in describing the class structure during the period under analysis.

17  
The Beetle was sold without a heater in Brazil up until the 1970s, as a means of cutting production costs and keeping down the selling price.

Germany at a much more favourable fixed rate.<sup>10</sup> From 1956 to 1960, VW do Brasil was able to import capital goods to a value of US\$ 11.2 million (DM 46.9 million based on the exchange rate at the time), mainly from Germany, achieving an estimated 25% (DM 11.9 million) cost-saving on the exchange rate.<sup>11</sup>

Additionally, in 1959 and 1960 VW do Brasil received low-interest loans from the SUMOC totalling US\$ 4.3 million (DM 18.1 million), repayable by 1967.<sup>12</sup> Although the interest rate subsidy was small, the government loans considerably aided the financing of the VW plant in Brazil, as they correspondingly reduced the funding needed from parent company VW. In March 1958, Brazil's state economic development bank BNDE (*Banco Nacional do Desenvolvimento Economico*) granted VW do Brasil a 150 million Cruzeiro loan (based on the exchange rate at the time equivalent to US\$ 1.4 million, or DM 5.9 million) at a reduced interest rate of 11%. Since the standard interest rates offered by Brazilian commercial banks between 1958 and 1960 averaged 23%, and the loan had a term of five years, the interest subsidy over the full term equated to DM 3.5 million.<sup>13</sup> At an average annual inflation rate of 39.5% (1958 to 1963), VW achieved a negative real interest rate of 28.5% each year, equating to a monetary benefit of DM 8.4 million over five years.<sup>14</sup>

Within just a few years of the opening of the São Bernardo plant, VW do Brasil attained market leadership in the Brazilian automotive sector. The key factor in the company's success on the Brazilian market, alongside the cost-effective mass production of a single model (the VW Beetle), was the product itself. The lowest-priced models from the major competitors GM and Ford were bigger, heavier, and more expensive both to buy and to run. VW do Brasil's sole competitor in the family-friendly small car segment, through until the entry onto the market of Simca and Fiat in the late 1960s, was the Renault Dauphine, which was built under licence for the Brazilian market by Willys-Overland.<sup>15</sup> However, the Renault Dauphine began to lose ground against the Beetle as early as 1960, and was unable to gain a solid foothold on the Brazilian market.

Thanks to its low purchase price, the VW Beetle was ideal for a market with a low average per capita income and a small and only slowly growing middle class.<sup>16</sup> Its unique technical selling points such as the air-cooled engine (beneficial for the subtropical climate) and robust chassis, with big wheels and a comparatively high wheelbase, made it well suited to driving in a country which in the 1960s and 1970s still predominantly featured unasphalted roads outside of the major urban conurbations. Design weaknesses such as the poor heater were irrelevant in Brazil's subtropical climate.<sup>17</sup> The model's service-friendliness and relatively simple engine and chassis design helped it succeed in what was initially still an underdeveloped

country. To keep the selling price down, costly equipment feature upgrades were introduced later than in Germany. While the hot climate meant that a heater could be omitted with no impairment of comfort, the delayed introduction of important safety features represented dubious decision-making in terms of corporate ethics. As one example, the Brazilian Beetle was only fitted with a safety steering column in 1976 – nine years later than its German role model. The management board of VW do Brasil lobbied the government to delay the introduction of new safety regulations for cars.<sup>18</sup>

Further advantages for VW derived from the classless brand image and German origin of the Beetle, which in Brazil was nicknamed *Fusca*. As owning a car was a mark of distinction in Brazilian society all the way through to the 1980s, the Beetle’s lack of branding prestige was only an issue for the small percentage of society forming the upper middle and upper classes. VW’s German origin proved beneficial to its brand image in Brazil, as the negative stereotyping of the “gringo” was directed primarily against the economically and politically (over-)powerful USA and Americans in general, but not against Germany and German businesses. In view of the positive associations of German products with solidity and quality, the German origin of the *Fusca* and of other models from VW do Brasil was advantageous in terms of image.

When founding VW do Brasil in 1953, VW had allotted the Brazilian Monteiro-Aranha group a 20% minority share-holding. The benefit of involving the influential Aranha and Monteiro industrialist families at the time, in addition to the boost they provided to VW’s still meagre capital coverage, derived from their network of relationships with the key stakeholders in Brazilian industry, government ministries, and the political elite. Since their holding was below the 25% blocking threshold, the minority shareholders were unable to block any decisions made, unless they related to capital increases.

Through to the 1980s, all the posts on the management board of VW do Brasil except human resources and legal affairs were held by German directors seconded from the home country, most of whom had not lived in Brazil before.<sup>19</sup> German executives from Wolfsburg were also in the majority at the senior management level below the board. Although seconded German executives and specialists represented just 0.2% of the total workforce (70 out of 35,000) in the 1970s, many key positions were in German hands. Ethnic-German Brazilians and first-generation German-speaking immigrants assumed the roles of engineers and foremen in production and senior administrative functions, passing on the management’s instructions to the Brazilian workers by virtue of their bilingual skills and local knowledge.<sup>20</sup> Based

18

Letter from Werner P. Schmidt to Rudolf Leiding, November 4, 1973, in: UVW, 174/576/1.

19

Regarding the composition of the management board in the 1960s refer to UVW 1053/105/1.

20

There are numerous examples highlighting the careers of German-Brazilians with VW do Brasil to be found in features covering service anniversaries of senior staff in the company newspaper “Familia”.

21

Some copies of the minutes of management board meetings are held in the VW Group archives in Wolfsburg. The archives of VW do Brasil contain no minutes of management board meetings, because they were destroyed on expiration of their statutory retention periods; interview with Jacy Mendonça, March 29, 2017 (Mendonça was a member of the management board of VW do Brasil responsible for the human resources portfolio from 1981 onwards).



22  
UVW, 1053/105/1.

23  
State archives of North Rhine-Westphalia, denazification record of Schultz-Wenk (read in 2016 by Dr. Manfred Grieger).

24  
Wolfgang Sauer, "O homem Volkswagen, 50 anos de Brasil", São Paulo 2012, p. 153. The claim in the issue of "Stern" magazine published on October 16, 1966 that Schultz-Wenk had held a rank equivalent to lieutenant colonel at the end of the war has little credibility, as he would have been only a comparatively young 31 years old at the time.

25  
Report by Schultz-Wenk to Nordhoff, April 16, 1964, in: UVW, 174/559/1.

26  
Sauer, "O homem Volkswagen", p. 154.

27  
Up until the start of the war, Schultz-Wenck had been studying interior design at the Kunstakademie [Academy of Arts] in Hamburg. On this see: "VW-Tochter: Erfolg mit Fusca" [VW subsidiary: success with the Fusca], in: "Der Spiegel" 39/1966, September 19, 1966.

28  
Sauer, "O homem Volkswagen", pp. 151f.

on the majority of Germans on the management board, German remained the predominant language at senior management level until the cooperation of VW do Brasil with Ford to create Autolatina in 1987. Board meetings were conducted and minuted in German.<sup>21</sup>

Since the legal affairs portfolio demanded comprehensive knowledge of Brazilian law, and the human resources portfolio needed to be cognizant of the Brazilian labour market as well as the complex Brazilian employment laws, the posts on the management board were filled by a representative of the Monteiro-Aranha group (Dr. Ignacio Barros Barreto) and a Brazilian executive appointed by VW.<sup>22</sup> From 1954 to 1969, VW do Brasil was headed by the German director Friedrich Schultz-Wenk (1914-1969). Schultz-Wenk joined the NSDAP (the Nazi Party) as a youth in 1931, served as a naval officer during the Second World War, and emigrated to Brazil in 1949.<sup>23</sup> Although Schultz-Wenk had chosen to live in Brazil, and became a Brazilian citizen, his knowledge of Portuguese was not good. In consultations with Brazilian officials, he needed the assistance of his German-Brazilian secretary Evelina Boelcke as an interpreter.<sup>24</sup>

Schultz-Wenk had known VW General Director Heinrich Nordhoff since the early post-war years, and was on first-name terms with him. Their correspondence shows that, despite his Brazilian citizenship, Schultz-Wenk saw himself categorically as a German, and viewed his adopted home with a certain colonialist sense of superiority. He expressed his negative view of Brazilians' organisational skills in a long letter he sent to Wolfsburg on April 16, 1964, seventeen days after the military coup. Schultz-Wenk approvingly reported that "the coup was exceptionally well prepared by Brazilian standards".<sup>25</sup> His well-intentioned comments, such as when praising the learning capabilities of the often illiterate migrants from the poor north-east of Brazil who found work at the plant as semi-skilled labourers, revealed a paternalistic, colonialist condescension.<sup>26</sup>

Schultz-Wenk's colonialist attitude was also reflected in the design of the executive office suite, which the qualified interior design himself conceived.<sup>27</sup> The hall for business lunches, receptions and other official gatherings was designed in the grand Brazilian colonial style, featuring heavy antique furniture and a large French Gobelin tapestry, but bore the culturally, historically and geographically inappropriate German name of "Rittersaal" [knights' hall].<sup>28</sup> The name "Rittersaal" was intended to remind the other management board members and visitors of the German character of the company, and emphasised the national pride of the chairman.



### 3. VW do Brasil and the military coup on March 31, 1964

Throughout the period of office of President João Goulart (1961-1964), Brazilian consumers and businesses were faced with steadily rising inflation. The inflation rate in 1961 was 34.7%, but by 1962 it had risen to 50.1%, and by 1963 even as high as 78.4%.<sup>29</sup> For VW and other foreign corporations the rising inflation in itself was not yet a matter of concern, as the country's gross domestic product rose strongly during 1961 and 1962, at rates of 8.6% and 6.6% respectively, and car sales were increasing faster than production output. Thanks to the high level of demand for new cars, and the lack of competition in the Beetle's price class, the Brazilian car sector was a seller's market which allowed cost increases to be passed on to consumers without placing sales volumes at risk.

Brazilian business reacted to the announcement of extensive social reforms and a political shift to the left by cutting capital investment and adopting an increasingly negative attitude to Goulart. In 1963, for the first time since the end of the war, Brazil's economy stagnated, achieving growth of just 0.6%. In October 1963, electricity rationing was introduced as a result of inadequate investment in power station capacity by the state-run power companies, forcing VW do Brasil to cut its production by 15%.<sup>30</sup> The management board of VW AG suggested making up the shortfall in supply by building a company-owned power plant with a three megawatt capacity.<sup>31</sup>

Goulart's policy of expropriating undeveloped land along federal highways (*estradas federais*) and railway lines from large-scale land-owners in return for government bonds, and the plan to lease the land to landless peasants and rural workers, was aimed at implementing fundamental land reform in order to correct the major social inequalities among the rural population. The politically influential large-scale land-owners saw this reform ideas as a dangerous threat to their social status. Based on the planned introduction of voting rights for the illiterate, and the legalisation of the Brazilian Communist Party (*Partido Comunista do Brasil* – PCB), the agricultural and industrial elites feared a political shift to the left at the next parliamentary elections.

In 1962, VW do Brasil and other Brazilian subsidiaries of foreign corporations were forced to accept restrictions on annual profit transfers to their parent companies, limiting them to 10% of invested capital.<sup>32</sup> They had to deposit the equivalent of 50% of the value of all financial transfers abroad in Cruzeiros with the Banco do Brasil, which severely impacted on their liquidity.<sup>33</sup> By November 1963, VW do Brasil had accrued an amount equivalent to DM 80 million in transfers that was waiting for approval.<sup>34</sup> The Brazilian government's intention by this was not to reduce companies' dividend payments. The high levels of capital goods imports for industrial investments, and the associated increase in foreign debt, had resulted in

29

Figures according to Baer, "Brazilian Economy", p. 410 (source: International Monetary Fund – IMF).

30

Annual Report of VW do Brasil for 1963 submitted to VW AG, in: UVW, 174/559/1.

31

Minutes of the VW AG management board meeting on July 1, 1963.

32

Law 4.131 dated September 3, 1962. In this regard refer to Felipe Pereira Loureiro, "A aprovação da lei de limitação de remessa de lucros no governo Goulart e o empresariado nacional e estrangeiro (1961-1964)", in: Revista Brasileira de Historia 36 (2016), no. 71, pp. 155-171.

33

Wellhöner, "Westdeutscher Fordismus" [West German Fordism], pp. 287f.

34

Minutes of the VW AG management board meeting on November 14, 1963.

35

Brazil's cumulative balance of payments deficit from 1957 to 1963 was US\$ 1,472 million (Baer, "Brazilian Economy", pp. 408f.).

36

As claimed in the civil suit by trade unionists against VW do Brasil filed with the Commissioner for Human Rights at the Justice Ministry of São Paulo state on September 22, 2015. The plaintiffs make reference to the unpublished masters degree thesis by J.C.E. Silberfeld ("O Grupo Permanente de Mobilização Industrial da FIESP 1964-1967", São Paulo 1984), who had previously worked for the FIESP and gained access to some of the organisation's documents that were not in the public domain.

substantial balance of payments deficits in the period from 1957 to 1963, and the only means of mitigating them rapidly was by imposing restrictions on payments abroad.<sup>35</sup>

When, in mid-March 1964, the Brazilian press published the government's plans to expropriate large parcels of land (above 500 hectares) at distances of up to 10 kilometres from federal highways, the heads of the Brazilian armed forces began preparing a coup against the Goulart government. As government plans to expropriate foreign refineries in favour of the state oil concern Petrobras were disclosed at the same time, the US government was alarmed. With the knowledge and approval of President Lyndon B. Johnson, the US Department of Defense instructed the US Navy to provide the Brazilian armed forces with logistical assistance in carrying out a military coup, with the aim of preventing the expropriation of US oil companies in Brazil.

The willingness of the US Navy to intervene proved irrelevant to the coup. The coup's organisers encountered no serious resistance either within the military or in the Brazilian public at large. The attempted resistance of the government and its allied parties and trade unions very rapidly proved to be futile, and as a result the coup plotters gained control over the country, without US assistance, on March 31 and April 1, 1964. Owing to the short space of time spent preparing the coup and the rapid success achieved by the military, it is highly unlikely that the coup plotters received active logistical support from Brazilian companies. Just four weeks after the coup, on April 30, 1964, the industrial association of São Paulo state (FIESP), of which VW do Brasil was also a member, established a Permanent Working Group for Industrial Mobilisation (*Grupo Permanente de Mobilização Industrial – GPMI*) as an instrument for industry to actively support the military government.<sup>36</sup> VW do Brasil provided no financial support to the coup plotters.

President Goulart and a number of his political allies escaped into exile on April 2nd in order to avoid arrest. In the early weeks following the coup, a mass "clean-up operation" (*Operação Limpeza*) saw a total of 7,000 people being arrested. Under pressure from the coup plotters, the Brazilian parliament was prevented from appointing the house speaker to succeed Goulart as the constitution stipulated. Enacting the Emergency Powers Act Number 1 (*Ato Institucional No. 1*), the coup plotters installed General Castelo Branco as President. Over the coming months, the Emergency Powers Act served as a pseudo-legal basis for withdrawing passive voting rights from the ministers in the Goulart government and their supporters in parliament, and to initiate mass sackings of their supporters from the public service and the military.

VW board member Friedrich Schultz-Wenk was in no way shocked at the coup. In fact, he was decidedly positive; even euphoric. In a long letter to Nordhoff on April 16, 1964, he made no secret of his opposition to the “distinct leftward swing of the Goulart government”. Schultz-Wenk explicitly welcomed the arrest of trade union leaders, and of actual and alleged Communist sympathisers. He expressed both the mood of Brazil’s business elite and his own pleasure at the coup by saying: “I was astounded by the sincere joy with which the government’s fall was welcomed”. He saw the appreciation of the Brazilian Cruzeiro against the Dollar and the 100% rise in the stock market as unmistakable signs of business’s justified confidence in the coup organisers’ policies.

Schultz-Wenk did not downplay the violent nature of the coup, and even justified it. His comment, “What is currently taking place is a hunt such as we did not even see back in 1933 in Germany”, is an expression less of horror than of respect for the determined approach of the military in targeting left-wingers. His objection, “Whether it’s all right can be questioned, because pressure does of course generate counter-pressure”, was a criticism not of the use of force in itself, but a warning of a potential and, in his view, impending left-wing uprising. Schultz-Wenk trusted that the military government would reduce the high inflation rate by unpopular measures and would impose rigid stability in its economic policy. While some stability policies in the form of government wage controls and managed cuts in real incomes were quite in keeping with business interests, he was willing to accept the negative consequences of an anti-inflationary policy for VW do Brasil. Increases in real-terms interest rates and restrictions on loan approvals by banks were likely, but threatened to impede sales growth.<sup>37</sup> Yet, as early as May 1964, he was proclaiming in a letter his unreservedly positive expectations regarding trends in sales revenues.<sup>38</sup>

Heinrich Nordhoff did not share Schultz-Wenk’s enthusiasm about the coup, and warned his Brazilian representative against openly taking sides in favour of the military government. Nordhoff’s argument was not based on a fundamental rejection of the coup, but rather on concerns that VW do Brasil, as a foreign-owned corporation, might be vulnerable if it got caught in the crossfire between the coup organisers and their opponents. Consequently, he instructed Schultz-Wenk “not to do anything which might result in too close links being formed with the current government, including demonstratively announcing new investment plans, which I think would be premature and inappropriate”. He noted that the instability of the situation meant that any interference in Brazilian politics would be “highly dangerous” for foreign companies.<sup>39</sup> Nordhoff’s comment regarding the “instability” of Brazilian politics can be interpreted as trivialising the coup.

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Letter from Schultz-Wenk to Nordhoff, April 16, 1964; cf. report by Schultz-Wenk on the development of VW do Brasil in 1964, in: *ibid.*

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Letter from Schultz-Wenk to Nordhoff, May 25, 1964, in: UVW, 174/559/1.

39

Letter from Nordhoff to Schultz-Wenk, May 15, 1964, in: UVW, 174/559/1.

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Letter from VW AG (Novotny/Siebert) to the German Federal Minister for Economic Cooperation, June 11, 1964, in: UVW, 174/479/1.

Considering his negative view as to the stability of Brazilian politics, the military coup appeared to him as an almost natural consequence of an unstable democratic order.

Nordhoff's initially cautious and neutral attitude to the coup was not shared by all the senior management at VW AG. VW directors Novotny and Siebert, in the Group Foreign Investments department, expected to see a more business-friendly approach in Brazilian economic policy, and judged that "the political change in Brazil has given grounds for hoping that fruitful collaboration with the country's authorities can be maintained. So we very much welcome the fact that, just in this period of the restoration of a rational political order, German development aid [for Brazil, C.K.] is beginning to flow".<sup>40</sup> VW AG's hopes of German development aid for Brazil were certainly not founded on altruistic considerations: VW had proposed to the German Federal Minister for Economic Cooperation that VW do Brasil should sell him non-transferable Cruzeiro assets to finance development aid projects in return for hard, fully transferable Deutschmarks. Nordhoff and the management in Wolfsburg could be confident that their cautious, though in fact unreservedly positive, assessment of the coup organisers was in tune with the German federal government's view. Federal President Heinrich Lübke did not cancel his state visit to Brazil despite the coup, and the visit went ahead in May 1964. VW would have had little interest in seeing the visit cancelled, as part of Lübke's trip included a prestigious visit to the VW plant in São Bernardo, where VW do Brasil had organised a large-scale reception by the workforce. This was another reason for Schultz-Wenk to paint the picture in Brazil in an almost unreservedly positive light.

VW do Brasil was already one of Brazil's biggest companies by 1964, and over the coming years was to become its biggest foreign-owned business. The trend in VW do Brasil's market share across all four-wheel motor vehicle segments (passenger cars, vans, trucks and buses) during the 1960s was as follows:

**TABLE 1: VW DO BRASIL SHARES OF THE DOMESTIC MOTOR VEHICLE MARKET<sup>41</sup>**

Year	Market share
1960	21.3%
1961	32.5%
1962	28.1%
1963	33.7%
1964	36.2%
1965	40.5%
1966	42.4%
1967	51.4%
1968	55.4%
1969	50.4%

VW do Brasil's prominent position as the country's biggest car-maker gave the company's management considerable influence in economic policy matters through its dealings with the government. When car sales briefly collapsed in 1965 as a result of the government's rigid anti-inflationary monetary policy, Schultz-Wenk intervened by successfully appealing to the Brazilian Economy Minister (*Ministro do Planejamento*) Roberto Campos for a temporary cut in the high level of sales tax on cars.<sup>42</sup> In view of the government's deflationary policies, in May 1965 Nordhoff decided to cut back on capital investments for expansion of capacity for the time being.<sup>43</sup>

However, from the perspective of VW do Brasil and VW AG the government's decision to ease restrictions on the transfer of profits, licences and consulting fees to foreign parent companies was more important. Although foreign subsidiaries were still subject to controls on transfers of profits and licence fees to their parent companies abroad, until a change in the law in 1974 VW do Brasil was able to transfer licence and consulting fees at the contractually agreed level to VW AG in addition to dividends. VW do Brasil resolved the problem of non-transferable profits by re-investing them in Brazil. It not only bought shares in Brazilian companies, but also made loans in Cruzeiros to German-owned companies such as Krupp do Brasil.

41

Shapiro, "Engines of growth", p. 242.

42

"Der Spiegel" 39/1966.

43

Minutes of the VW AG management board meeting on May 18, 1965, in: UVW, 69/719/2.



## 4. Industrial relations at VW do Brasil during the dictatorship

The following section examines the relationships between VW do Brasil as an employer and its employees – generally termed ‘industrial relations’ for research purposes. The first questions to be asked are whether the military coup had a negative influence on the abilities of employees and their trade union to shape and share in decision-making, and how the behaviour of the company’s management towards its employees changed under the dictatorship.<sup>44</sup>

The origins of Brazilian employment law extend back to the period in office of President Getúlio Vargas, who ruled Brazil as a dictator following a military coup in November 1937 until the end of the Second World War.<sup>45</sup> Among the successes of his regime were a minimum wage, set in 1943 on the basis of a scientifically calculated basket of food, living, clothing, transport and health costs. Covering all sectors of the economy, though at a very low level, it did establish a certain minimum standard of living. In Vargas’s first period of office as dictator (1937-1945), the government introduced a Labour Code (*Consolidação das Leis do Trabalho* – CLT) which, through 922 articles, enacted measures including a law guaranteeing dismissed employees severance payments according to their length of service, which in its basic principles remains in force today. Through until 1966, employees with more than one year’s service were entitled to a severance payment of one month’s wage per year of employment plus an additional month’s wage by way of basic security support. Employees with at least 10 years’ service were entitled to double the severance payment. They also enjoyed enhanced rights in the event of termination (*stabilidade*), and were extensively protected against dismissal except in cases of misconduct.<sup>46</sup>

The “New State” (*Estado Novo*) of the Vargas era was orientated to the authoritarian form of government of the same name which existed in Portugal from 1931 to 1974 under Prime Ministers António de Oliveira Salazar and Marcelo Caetano. In the industrial relations field, the *Estado Novo* created formally independent sector-specific trade unions (*sindicatos*) at local level which were authorised to represent employees in one industry at one location. Despite their right to negotiate pay rates with local employers and freely elect their representatives, the trade unions were in no sense autonomous. The *Estado Novo*, and the military dictatorship established in 1964, utilised the formal right – though one not exploited by democratic governments – to remove opposing trade union executive members from office and to declare strikes generally illegal through emergency ordinances or by the judgements of labour courts. As the trade unions were not allowed to collect members’ dues themselves, they were dependent on government grants. The Ministry of Labour collected obligatory trade union dues from employees through companies’ social security contributions, and distributed the monies collected to the local trade unions.<sup>47</sup>

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Since, all the way through to the 1980s, women accounted for only five percent of the total workforce of VW do Brasil (a much lower rate than at VW AG; cf. UVW, 1184/355/3), for simplification reasons only the male form is used here. This usage of the male form does of course include female employees.

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Hans-Joachim König, “Geschichte Brasiliens” [History of Brazil], Stuttgart 2014, pp. 250-260.

46

Maria Helena Moreira Alves, “State and Opposition in Military Brazil”, Austin 1985, pp. 68f.

47

Moreira Alves, “State and Opposition”, p. 85.

48

Kenneth P. Erickson, "The Brazilian Corporative State and working-class politics", Berkeley/Los Angeles 1977, pp. 153-174; Youssef Cohen, "The manipulation of consent: The state and working-class consciousness in Brazil", Pittsburgh 1989.

49

Law 5.107 dated September 13, 1966 ([www.planalto.gov.br/ccivil\\_03/Leis/L5107.htm](http://www.planalto.gov.br/ccivil_03/Leis/L5107.htm), accessed on May 19, 2017)

There was no autonomy for employers and employees' representatives to negotiate collective pay agreements. The Brazilian Ministry of Labour directly oversaw pay levels through the regional labour courts. Collective pay agreements between trade unions and employers only came into force once approved by the labour courts, and as such were instruments of government wage policy. The objective of authoritarian corporatism in the Vargas era was to prevent social conflict by state intervention. Despite repeated propaganda claims that the Estado Novo was orientated to the common good, the arbitration role of the strong state tended to favour the employers. Even in phases of economic boom and shortage of skilled staff – especially from 1964 onwards – the Ministry of Labour was focused more on maintaining purchasing power by mitigating inflation and less on productivity growth. In this way, the government obstructed a partial redistribution of profits to the workforce in the interests of the companies. Pay rises above productivity growth have been unwanted in government wage policy since 1964.<sup>48</sup>

In September 1966, the government reduced the existing severance pay entitlements. Whereas employees previously had legal rights in relations with their employers, a state severance payment fund (*Fundo de Garantia por Tempo de Serviço* – FGTS) now took control of payments to dismissed and unemployed workers. Employers were now obligated to pay eight percent of each employee's monthly wage to the severance payment fund, which ran an individual credit balance account for each employee. After being dismissed, employees received this amount together with the accrued interest by way of severance payment – replacing the non-existent social security (unemployment insurance) contribution.<sup>49</sup>

The new severance payment law was detrimental to employees in multiple ways. Firstly, the severance payments were lower because the basic month had been abolished. Secondly, the legal and financial obstacles to terminating long-standing employees with 10 years' service and more were eliminated without replacement. Whereas employers had previously had to make the severance payments from their own wage budgets, the obligation to provide compensation had now shifted to the government fund, the FGTS. The government had thereby removed a major cost risk for companies looking to implement mass redundancies. Even long-standing employees with years of service were no longer protected against dismissal by the high cost to their employers of severance payments.

VW do Brasil welcomed the measures easing the termination of long-standing employees, though at that time they were not yet significant in terms of personnel policy. Since the São Bernardo do Campo plant had been in existence since 1959, it was not until the early 1970s that the first production staff began reaching

their 10-year service anniversaries. Steadily rising production had also seen an increase in employment, so that new recruitment far outweighed terminations. As terminations no longer entailed additional cost, the new severance law brought VW do Brasil considerable savings. Because the new employment law gave the employees the option to choose between the old and new severance payment provisions, VW's workforce had to agree to their rights being transferred to the FGTS. In 1968, VW do Brasil offered its workers a 15.5% pay rise, brought forward five months, to encourage them to waive their former rights on termination and accept the less favourable new severance provisions.<sup>50</sup> The new law governing termination and severance payment rights saved VW do Brasil some of the cost of severance payments, and delivered an estimated cost benefit of seven million Deutschmarks a year. It allowed the management to sack longer-serving employees who had become more expensive, without incurring additional severance payment costs, and replace them by new staff with the minimum accrued rights.

This renewal of the workforce at the expense of the workers primarily affected unskilled and semi-skilled staff, who were easy to replace. Skilled workers with key in-demand qualifications were hard – or indeed impossible – to replace, owing to the shortage of skilled staff in the booming industrial city of São Paulo, and were better protected against a cost-saving workforce fluctuation policy. Longer-serving skilled workers were no longer protected by employment law, but merely by the shortage of staff. In 1977, almost 20% of VW do Brasil's workforce had been employed at the plant for more than 10 years.<sup>51</sup>

The corporatist elements in Brazilian employment law persisted even after the restoration of parliamentary democracy, including trade union freedoms and the right to strike, in 1945. Following the coup, the military-led government dismissed numerous left-wing trade unionists, replacing them with employee representatives loyal to it.<sup>52</sup> The government's so-called Strike Act (*Lei de Greve*) of June 1, 1964 – which was in truth an anti-strike law – abolished the right to strike as has been guaranteed in the formally still valid constitution of 1946.<sup>53</sup> While the 1964 Strike Act did not punish strikes in private companies and non-essential businesses, it did declare strikes “of a political or social nature” fundamentally illegal. It left it to the discretion of the Ministry of Labour to adjudge the legality of labour disputes. As a deterrent, it stipulated prison sentences of six to 12 months for strike leaders, with the sentence doubling in the event of repeat offences.

As opposed to the local trade unions in the industrial city of Osasco in São Paulo state, the metalworkers' unions in São Bernardo do Campo and the neighbouring towns maintained peaceful industrial relations, with no strikes, through to 1977.

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Minutes of the VW do Brasil management board meeting on November 12, 1968, in: UVW, 1053/62/1.

51

VW do Brasil, 1977 Annual Report.

52

Erickson, “Corporative State”, p. 158.

53

Moreira Alves, "State and Opposition", pp. 51f.; law 4.330 dated June 1, 1964 ([www.planalto.gov.br/ccivil\\_03/leis/1950-1969/L4330.htm](http://www.planalto.gov.br/ccivil_03/leis/1950-1969/L4330.htm) accessed São. htm, accessed May 19, 2017). The military government subjected the constitutions of 1967 and 1969 to an authoritarian revision which weakened the rights of parliament in favour of the government.

54

Cohen, "Manipulation of Consent", p. 45.

55

John Humphrey, "Capitalist control and workers' struggle in the Brazilian auto industry", Princeton 1982, pp. 147f.

56

VW do Brasil, 1982 Social Report.

57

Figures according to Reinhard Doleschal, "Automobilproduktion und Industriearbeiter in Brasilien: Eine Untersuchung über Volkswagen do Brasil und die internationale Arbeitsteilung" [Automobile production and industrial workers in Brazil: a study of Volkswagen do Brasil and the international division of labour], Saarbrücken 1987, p. 169. The percentages relate only to workers born in Brazil.

At VW do Brasil and the car plants in its vicinity there had not been any strikes or significant trade union organisation even prior to 1964. The organisational weakness of the trade unions in the auto industry was down, not least, to their being depoliticised by the military government. Since there was no statutory health insurance in Brazil, the workforce regarded the tame trade unions primarily as welfare institutions in case of sickness and as providers of legal protection insurance – areas of responsibility into which they were constrained by the government. A survey conducted in 1972 and 1973 among 560 Brazilian workers found that only 39% trusted the trade unions, while 42% trusted their employers, and 71% trusted the government.<sup>54</sup> In 1975, a survey by a British sociologist among workers at Ford revealed that the workforce had little confidence in the ability of their trade union to enforce pay claims.<sup>55</sup>

Since pay levels in the auto sector were the highest in Brazilian industry, jobs at VW were sought-after. Many of the semi-skilled and unskilled assembly staff had not previously worked in industry, and were not familiar with the working conditions, industrial relations and hierarchies of large industrial corporations. 61% of the workforce had only attended four years of primary school, and so were quite uneducated; some were still illiterate when recruited.<sup>56</sup> The VW workforce was also distinctly heterogeneous in terms of regional origins. While the skilled workers came mainly from the most heavily industrialised state of São Paulo, some of the unskilled and semi-skilled staff were migrants from the poor north-east of Brazil, and were not yet integrated into the community in São Bernardo. In 1973, 64% of the total of 32,000 employees originated from São Paulo state and 19% from the north-east.<sup>57</sup>

The skilled workforce primarily comprised tool-makers, lathe operators, machine fitters and electricians, who worked in the tool shop and the maintenance department on an hourly rate basis rather than on a piece rate, had previous experience of working in industry, and were better educated and trained. Thanks to the strong growth in the VW do Brasil workforce during the 1960s and 70s, the in-house community was in a continual state of change. Because of the large numbers being recruited, many of the employees had not been working at the plant long.

TABLE 2: WORKFORCE NUMBERS AT VW DO BRASIL<sup>58</sup>

Year	Number of Employees
1960	7,294
1962	9,343
1964	10,094
1966	13,108
1968	19,483
1970	23,799
1972	28,045

There is no evidence of strikes at VW do Brasil even during the comparatively disputatious period of the Goulart government. Alongside the lack of a trade union tradition and the high pay levels in the auto industry, an authoritarian paternalism encouraged the meek passivity of VW's workforce. VW do Brasil's internal communications depicted its workforce as one big family, in which the management board played the role of the authoritarian but caring father. The in-house newspaper during the 1960s and 70s bore the telling title *Familia* [Family], symbolising the paternalistic approach of the company's management.<sup>59</sup>

As Brazilian employment law made no provision for works councils or other employee representation bodies, the management was not confronted by demands from an organised workforce. In an interview with a journalist from "Stern" magazine in 1966, Schultz-Wenk declared in an apodictic and authoritarian manner: "I am my own trade union here". PR manager João Corduan added: "There are no strikes, and if anyone incites the workers to strike, he will be dismissed".<sup>60</sup> The workforce's only form of co-determination was through statutory in-house accident prevention committees, whose members were proposed by the union and elected by the employees.

Voluntary social welfare benefits at an unusually high level by Brazilian standards, a large, well-equipped sports and leisure club for employees and their families, a large cooperative shop (Coopervolks) with discounted prices that turned over the equivalent of DM 58 million a year (figure from 1978) and a substantial, highly subsidised lunch encouraged the workers to bond with the company materially and emotionally, and enhanced their loyalty to their employers.<sup>61</sup> In relation to

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Statistics from VW do Brasil on production trends and other data from 1960 to 1972, in: UVW 174/576/1 (original in Portuguese).

59

Werner Würtele, "Auf dem Weg zu einer 'authentischen' Gewerkschaftsbewegung in Brasilien" [On the way to an 'authentic' trade union movement in Brazil], Heidelberg 1982, pp. 247-253.

60

Stern", October 16, 1966.

61

At the company-owned *Cooperativa* shop, food prices were three percent below the prices of other cooperatives, and eight percent below supermarket prices (brochure: "VW in Brasilien" [VW in Brazil], in: UVW, 174/1029/2) (undated, 1979). 83% of the workforce were members of the *Cooperativa*.

62

Würtele, “Gewerkschaftsbewegung” [Trade union movement], pp. 254f.; VW do Brasil, 1982 Social Report.

63

Data on employees’ car ownership in the VW do Brasil 1981 Annual Report.

64

VW do Brasil, 1982 Social Report (UVW, 69/901/1).

other welfare benefits, such as the well-equipped company clinic, providing free treatment for employees and their families, VW do Brasil had since 1975 been utilising the option allowed by law to provide medical services to its workforce under its own control, or in cooperation with contracted hospitals and local doctors, in return for rebates on its statutory social insurance contributions (INPS).<sup>62</sup> This high standard of medical care did, however, make VW do Brasil’s employees dependent on the company-appointed doctors, who were restrictive in providing sick notes for ill workers. Other voluntary social welfare facilities, such as the efficient company bus network, with low-priced fares and schedules timed to coincide with changes of shift, did indeed benefit the employees, but were also the factors that enabled the company to recruit so many staff from the São Paulo area in the first place.

As only a minority 37% of the workforce had their own car (despite receiving employee discounts), and the local public transport system did not have sufficient capacity and did not run in line with shift times, VW do Brasil was forced to provide this infrastructure service under its own control.<sup>63</sup> Through its large, well-equipped training centre, with capacity for 900 apprentices, VW do Brasil played a key role in providing the vocational training which was normally the responsibility of the government vocational training body SENAI (*Serviço Nacional de Aprendizado Industria*). As VW primarily trained apprentices to cover its own continually rising demand for skilled staff and engineers, the cost of the education and training facilities it provided was well worthwhile. By contrast, the grants for employees’ children to attend higher education colleges introduced in 1979 (1979: DM 546,000; 1982: DM 1,370,000) were a genuine voluntary welfare benefit. As higher education colleges in Brazil charged fees, VW do Brasil provided many of its employees’ children with opportunities for social advancement. VW do Brasil began funding cooperative housing construction for its employees’ families in 1979 – much later than its parent company.<sup>64</sup> It appears to be no coincidence, however, that VW do Brasil introduced these voluntary benefits in 1979. It was the first year in which Brazilian auto manufacturers were confronted by trade union pay demands and weeks of strike action. The new benefits were aimed at appeasing and moderating the increasingly self-confident auto workers.

At first glance, the emergency powers laws introduced in the early years of the military regime had had little impact on industrial relations at VW do Brasil. Thanks to the ban on strikes and government oversight of the trade unions, the company’s management could be sure that the workforce would not try to exploit the boom in the auto industry to make increased pay demands.

After the first four years of the dictatorship, the management boards of VW do Brasil and VW AG had every reason to be happy with the military government's economic policy. While, owing to the rigid anti-inflationary credit restrictions, economic growth in the first two years of the dictatorship (3.4% in 1964 and 2.4% in 1965) was still quite weak compared to Germany, in 1966 and 1967 Brazil's economy picked up with growth rates of 6.7% and 4.2% respectively. In the same period, the high inflation rate fell steadily from 90% to 26.5%, substantially mitigating the problem of adapting prices to difficult-to-predict increases in wages and costs.<sup>65</sup> Following his visit to Brazil in June 1968, the new chairman of the VW AG management board Kurt Lotz (who was to hold office from 1968 to 1971) was very graceful in expressing his thanks to the Brazilian Minister for Industry and Commerce, Brigadier General Edmundo de Macedo Soares, who had received him for talks in the capital Brasilia. Lotz commended the minister that "your economic policy (...) has enabled private investment in Brazil to flourish, and has strengthened our confidence (...) in being able to sustain the successful policies of Volkswagen do Brasil".<sup>66</sup>

Whereas Nordhoff had recommended maintaining some distance to the military regime immediately following the coup, his successor Lotz sought to engage in dialogue with the Brazilian government shortly after taking office. Lotz was not influenced by the proclamation of the Emergency Powers Act No. 5 (*Ato Institucional No. 5*) in December 1968,<sup>67</sup> through which the military-led government further restricted civil rights. Emergency Powers Act No. 5 allowed the government not only to withdraw the parliamentary mandates of any opposition members it disliked, but also abolished protections against arbitrary arrest (*habeas corpus*) in relation to political acts, and empowered the government to proclaim laws by decree. The political crimes stipulated by the Emergency Powers Act No. 5 also included disturbing the economic and social order, whereby the government legalised the arrest of opposition trade unionists and striking workers by the police organs of state. The dictatorial character of Brazil's military regime was rendered self-evident and undeniable by the Emergency Powers Act No. 5.

On his second and third trips to Brazil in March 1970 and July 1971, Lotz was even each time granted a one-hour audience with Brazil's President, Emílio Garrastazu Médici (1905-1985), who as President from 1969 to 1974, and a leading figure in the military regime, was the embodiment of Brazilian domestic politics and its human rights violations. On his trip to Brazil in March 1970, through the good offices of then VW do Brasil chairman Rudolf Leiding, Lotz was awarded the honorary citizenship of the major industrial city of São Paulo by the governor of São Paulo state. Lotz accepted this prestigious honour, even though the German press was repeatedly reporting on the increasing cases of the arrest and torture of left-wing

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Baer, "Brazilian Economy", pp. 405, 410.

66

Letter from Lotz to Brigadier General Edmundo de Macedo Soares, July 19, 1968, in: UVW, 263/353/2. Lotz (1912-2005) had only joined the VW AG management board in June 1967, and was appointed chairman in April 1968 following the death of Heinrich Nordhoff.

67

<http://legis.senado.gov.br/legislacao/ListaPublicacoes.action?id=194620> (accessed May 24, 2017).



68

UVW, 69/346/2.

69

Lotz travelled to Brazil from July 4-7, 1970 and from March 23-29, 1971 (UVW, 69/366/1). Leiding visited Brazil twice in 1973 alone (May 22-June 1 and October 26-November 3; see UUV 69/345/1).

70

Career of Edmundo de Macedo Soares (1901-1989) documented in: "Dicionario Historico Biografico Brasileiro pós 1930", Rio de Janeiro 2001.

opponents to the regime. The planned and approved visit by his successor Rudolf Leiding (1914-2003; in office from October 1971) to President Medici in February 1972 was cancelled solely because the President changed his schedule at short notice to fulfil another commitment.<sup>68</sup> Leiding's successor Toni Schmücker (1921-1996), who was chairman of the management board from 1975 to 1981, was also received by President Ernesto Geisel in 1976.

The talks between the respective chairmen and Presidents Medici and Geisel and their industry and commerce and finance ministers cannot be reconstructed as no minutes of them exist. As Lotz was accompanied on his visits to President Medici by the government's economic policy chief, Finance Minister Antônio Delfim Netto, it is likely that the talks primarily related to matters of tax, trade and foreign exchange policy. While chairmen Lotz and Leiding reported back to their management board colleagues on the situation at VW do Brasil on their return, including some appraisal of the state of the Brazilian economy, according to the minutes of the board meetings the repression of civil rights was never addressed. It is therefore highly unlikely that Lotz or his successor ever confronted the representatives of the Brazilian regime with regard to human rights violations and restrictions on employees' rights.

Lotz and his successor Rudolf Leiding travelled to Brazil almost every year in order to review the positive development of the company's biggest international subsidiary.<sup>69</sup> They certainly did not visit the Brazilian Minister of Industry and Commerce and the Finance Minister merely as a courtesy, but rather to keep up-to-date on the basic line Brazilian economic policy was following. Economy Minister from 1967 to 1969 Macedo Soares, for example, had attained his position not solely because he was a member of the military elite, but also based on his years of experience managing state-owned and private Brazilian industrial companies. Following the coup, Macedo Soares became president of the São Paulo state industrial confederation (FIESP) and the national confederation of industry (CNI – *Confederação Nacional da Indústria*).<sup>70</sup> Finance Minister Delfim Netto was not a key player who was visited by every management board chairman on their trips to Brazil solely because of his responsibility for international payments. The economist Delfim Netto was rightly regarded as the conceptual and decision-making brains behind Brazil's economic policy.

The management of VW do Brasil was likewise unsparing its praise for the military government. At a meeting of the largely irrelevant supervisory board (Conselho Consultativo) of VW do Brasil on September 22, 1969, in the presence of Lotz and several other members of the management board of VW AG its first vice-chairman

Fernando E. Lee praised the policies of the military government with the words: “We all realize too well, from past experiences, the importance of a stable political situation in the building and strengthening of our economy”. He justified the continued military dictatorship against the background of the kidnap of the US Ambassador to Brazil by left-wing guerrillas: “(...) as it was evident that a civilian could not, at this time, exert the necessary powers to cope with such a serious situation”.<sup>71</sup>

The chairman of the management board of VW do Brasil from 1971 to 1973 Werner P. Schmidt was confronted with the criticism of human rights violations in an interview with the “Süddeutsche Zeitung” newspaper. Werner P. Schmidt did not deny that regime opponents were being tortured and murdered, but justified the actions with the apologist claim that “you can’t make progress without being tough. And progress is being made”.<sup>72</sup> In a monthly report to Leiding, Schmidt condemned an article in the German magazine “Der Spiegel” on September 18, 1972 which had sharply criticised the increasing social inequality in Brazil and the smug nationalistic propaganda of the military government as “an infamy”.<sup>73</sup>

The chairmen of VW AG made no comment on the Brazilian military dictatorship either in public speeches or in interviews with German mass media until the late 1970s. In a letter to Brazilian member of parliament Alberto Hoffmann, Rudolf Leiding made no secret of his disapproval of the increasingly critical reporting on Brazil by German journalists, and committed to promoting a more positive image of the country.<sup>74</sup> Leiding’s unreservedly positive view of the political and social situation in Brazil was disclosed to the Brazilian public in a lengthy interview with the journalist Gerardo Moser in October 1973. Deputy Hoffmann – a member of the governing ARENA (*Aliança Renovadora Nacional*) party – quoted Leiding’s interview in detail in a speech to parliament, justifying the government’s policies through the positive impressions of a top foreign business executive:

*“(Leiding): I am convinced that Brazil is politically the most stable country in Latin America. The reason that one sometimes hears criticism of the regime here in Europe is that people here do not have sufficient insight into the true situation in Brazil. My view is that this stability will provide the country with the necessary economic foundations (...) It is essential that more and more people should be included in the working process. This will result in many problems being resolved all by themselves. Brazilians (...) are not envious people, and they are satisfied with their lot if they can always be certain that their living conditions might slowly but surely improve. Brazilians are also willing to work, even if they hate doing heavy labour”.<sup>75</sup>*

71

Report by Dr. Fernando E. Lee at the meeting of the Conselho Consultativo on September 22, 1969 in Wolfsburg, in: UVW, 69/259.

72

Interview by Schmidt with Süddeutsche Zeitung, February 16, 1972, quoted according to Würtele, “Gewerkschaftsbewegung” [Trade union movement], p. 334.

73

“Der Spiegel” 39/1972, September 18, 1972.

74

Letter from Leiding to Hoffmann (1920-2014), October 29, 1973: “Tenho notado, em muitas contactos con jornalistas e personalidades na Alemanha e Europa, que muitos desconhecem ainda o verdadeiro aspecto da vida e da mentalidade brasileira, e apenas muito lentamente e com muita paciencia e possivel difundir uma imagem mais positiva do Brasil”. (UVW 174/577/1). (Translation: I have noticed in the course of many contacts with journalists and leading personalities in Germany and elsewhere in Europe that many people are not yet aware of the true nature of Brazilian life and the Brazilian mentality. It will take a long time and a lot of patience to disseminate a more positive image of Brazil). Hoffmann was a member of the Brazilian federal parliament from 1959 to 1963 and from 1967 to 1983.

75

Speech by Alberto Hoffmann to the Brazilian congress (federal parliament), October 10, 1973, in: “Diário do Congresso Nacional”, October 10, 1973, p. 7109.

76

Letter from Leiding to Prof. Dr. Kurt Hansen (chairman of the management board of Bayer AG), April 25, 1973, in: UVW 69/286/1. It could not be determined whether this brochure was also sent out to multipliers such as journalists.

77

On Geisel's career refer to the Brazilian Web portal UOL ([www.educacao.uol.com.br/biografias/ernesto-geisel.htm](http://www.educacao.uol.com.br/biografias/ernesto-geisel.htm), accessed May 24, 2017).

78

Letter from Sauer to Leiding, August 24, 1973, in: UVW 174/577/1.

Leiding trivialised the criticism of the human rights violations by the military dictatorship with the apologist argument that other Latin American countries which at that time were still democratically governed, such as Argentina, were much more politically and economically unstable – and so unattractive to foreign investors – because of their militant domestic political conflicts. He claimed that the criticism of the supposedly one-sided reporting in German media had been received negatively by the German public. His prejudicial statements regarding the willingness of Brazilians to work constituted a national stereotype which – despite its apparently positive characterisation – revealed a condescending and colonialist attitude. The management board of VW AG countered public criticism of the political situation in Brazil with a brochure portraying the development of the country, and the involvement of German companies, in a positive but substantially uncritical light. As the brochure was distributed only to shareholders at the annual general meeting, its impact was limited.<sup>76</sup>

Leiding regularly received reports on economic and political trends in Brazil from the respective chairmen of the local subsidiary. In a surviving report from August 1973, Wolfgang Sauer (1930-2013; appointed chairman of the management board with effect from July 1, 1973) notified his superior at the parent company of the upcoming handover of presidential office from General Médici to General Ernesto Geisel (1907-1996).<sup>77</sup> In contrast to his predecessors Leiding and Schmidt, Sauer had already been living in Brazil since 1961, and had first-hand knowledge of the country when he took over at VW do Brasil. The new chairman expected that “General Geisel will certainly be pursuing the policies of the revolutionary government, possibly even rather more intensively (...)”.<sup>78</sup> Sauer's neutral choice of words permits no conclusion as to whether he approved of the continuation of repressive domestic policies. His use of the term “revolutionary government” was in keeping with official government terminology, which had imbued the 1964 coup with the implied positive attributes of a revolution. Indeed, the government marked the date of the coup each year as “Revolution day”. Sauer's language implied no distancing of himself from the military dictatorship.

The chairman of the management Board of VW do Brasil was to be proved right in his appraisal of political developments in Brazil. The new President Geisel left the infamous Emergency Powers Act No. 5 (*Ato Institucional No. 5*) in force until the end of 1978. His first two years in office (March 15, 1974 to March 15, 1979) saw two spectacular political murders, of opposition journalist Vladimir Herzog and metalworkers' trade unionist Manuel Fiel Filho, who died as a result of torture in Political Police prisons.



## 5. The development of VW do Brasil during the Brazilian Economic Miracle (1968-1974)

Contrary to the widespread Economic Dependency Theory regarding the unilateral dependency of emerging economies on developed countries, the Brazilian state was not in a position of weakness in relation to large multinational investors such as VW. There is no evidence that VW influenced Brazilian tax policy, or of unilateral business-friendly reform of employment laws. As opposed to most national economies in the neo-liberal era after 1990, Brazil in the 1960s, 70s and 80s pursued a highly regulated protectionist foreign trade policy, and imposed strict controls on the international transfer of money and capital. Transfers of dividends and of licence and consulting fees required the approval of the Central Bank, which was authorised to restrict outflows of profits to corporate parents abroad as a means of managing the country's balance of payments and foreign exchange position. Licences for the duty-free import of capital goods such as machinery were tied to submission of proof that there was no Brazilian manufacturer capable of making the machinery in question. A decree issued in August 1972 by the state Industrial Development Council (*Conselho de Desenvolvimento Industrial* – CDI) obliged auto manufacturers with operations in Brazil to achieve export revenues of US\$ 40 million over the next 10 years as an initial target. That target was increased to US\$ 100 million by 1974<sup>79</sup>. From 1972 onwards, the State Commission for Tax Benefits and Export Programmes (*Benefícios Fiscais e Programas Especiais de Exportação* – BEFIEX)<sup>80</sup> decided on the approval of duty remissions on imports of manufacturing equipment and materials deemed key to increasing export production. The threat of loss of tax breaks if the export plan was not fulfilled was linked to the promise that export success would be rewarded with export subsidies.

Although the Brazilian Central Bank (*Banco Central do Brasil*) allowed VW do Brasil to transfer dividends and consulting and licence fees with no major restrictions up until 1974, it was able to exert indirect control over the appropriation of profits through Brazil's foreign exchange laws. In December 1968, for example, the VW AG International Legal Affairs department complained of the “intentionally or unintentionally unclear commercial regulations” which gave the Brazilian Central Bank and the ministries considerable scope for the exercise of discretion to the disadvantage of foreign companies<sup>81</sup>. By its own assertion, the VW AG Legal Affairs department was “more reliant on good relations with the Brazilian authorities than in other countries”<sup>82</sup>. As the Brazilian government only allowed dividend transfers up to an amount of 12% of the share capital, the possibility of excessive dividend returns to the parent companies of subsidiaries in Brazil was ruled out.<sup>83</sup>

There was no legal entitlement to duty-free import of capital goods into Brazil, even if the goods in question were not otherwise made in the country. VW do Brasil required the approval of the Brazilian Finance Ministry for the duty-free import of

79

Decree No. 20/1972 issued by the CDI on August 29, 1972, in: UVW, 174/576/1.

80

BEFIEX: Benefícios Fiscais e Programas Especiais de Exportação. Regarding the launch of the BEFIEX programme refer to the briefing by the VW AG Investments department, May 7, 1973, in: UVW, 69/345/1.

81

Report by the VW AG International Legal Affairs department (Dr. Krüger) on the 1968 financial year, December 18, 1968, in: UVW, 69/302.

82

Report by the VW AG International Legal Affairs department on the 1969 financial year, in: UVW, 69/259.

83

Briefing by the VW AG Investments department, undated (1973), in: UVW, 69/345/1.

84

Telex from Schmidt to Leiding, February 2, 1973, in: UVW, 174/576/1.

85

n 1973, for example, VW do Brasil applied to the government for an 8% price increase, while expecting to be allowed only a 4% rise (report from Sauer to Leiding, August 24, 1973, in: UVW, 174/577/1).

86

Situation report by VW do Brasil for the meeting of the Conselho Consultativo on September 22, 1969, in: UVW, 69/259.

87

Report of the VW do Brasil sales organisation, February 28, 1973, in: UVW, 69/345/1.

88

According to Shapiro, "Engines of growth", p. 174, the average return on sales in the Brazilian auto industry in 1968 was 2.9%.

89

UVW, 69/346/2.

90

Minutes of the VWB management board meeting on March 27, 1973, in: UVW, 174/576/1. The new VWB chairman Wolfgang Sauer (1930-2013) reported to Leiding in a letter dated August 24, 1973 on difficulties in material procurement (UVW 174/577/1). Refer also to the minutes of the VWB management board meeting on August 1, 1973, in: *ibid.*

used machinery from its parent company. It was to that end that the chairman of VW do Brasil maintained their good relations with the Brazilian Finance Minister Delfim Netto, who as the government's economic policy chief had the last word in the issuing of import licences.<sup>84</sup>

The Banco Central took several months to decide on VW do Brasil's application to transfer consulting and licence fees to Germany. Since the Brazilian Cruzeiro was continually losing value owing to the still high inflation rate of 24% (on average from 1967 to 1969), the transfer date was key to the valuation in Deutschmarks. In just one year, from January 1968 to January 1969, the Brazilian Cruzeiro lost 19% of its value against the US Dollar and the Deutschmark. If the Banco Central set the applicable date of the foreign currency allocation as the date of its approval rather than the date the application for transfer was submitted, Volkswagen AG's income from dividends, licence and consulting fees would be reduced.

VW do Brasil did not have freedom in terms of its pricing either. The requirement of government approval for price increases hindered VW do Brasil in maximising its sales revenues, but not in achieving high returns<sup>85</sup>. The Brazilian auto market remained a seller's market up to the late 1970s. This enabled VW do Brasil to increase its sales by 28% in 1969, achieving a 65% share of the passenger car market, though it could not fully exploit the potential for price increases<sup>86</sup>. The high demand for cars allowed VW dealers to continue offering top-class terms. As dealers had to pay for new vehicles in advance, VW do Brasil was protected against the inflation risk in the period between the vehicle being shipped and being sold to the customer.<sup>87</sup>

Government price controls did not prevent VW do Brasil from achieving exceptionally high returns during the period of the Brazilian Economic Miracle from 1968 to 1974, substantially outperforming the average returns in the Brazilian auto industry<sup>88</sup>. The company's return on sales before tax in 1971 was 9.7% of net sales revenues – much higher than that of its parent company, whose profits that year dropped sharply despite an economic boom.<sup>89</sup> Where problems arose, they were on the production side rather than on the sales side. The minutes of a management board meeting in March 1973 noted problems in on-demand delivery of raw materials, which were hindering increases in production.<sup>90</sup> The strict regulation of the Brazilian auto market also brought established manufacturers such as VW major competitive advantages however. As imports of machinery and other equipment initially impacted negatively on Brazil's trade balance, new foreign investors required approval for capital investments and production from the government. VW AG chairman Leiding urged the chairman of VW do Brasil Sauer to oppose the approval of new competitors in discussions with government

representatives. He encouraged Sauer to exploit the government's enthusiasm for motorisation by persuading them through the Fordist argument of low product prices based on the highest possible volumes from a small number of auto manufacturers.<sup>91</sup>

Brazil's distinctly nationalistic and protectionist economic policy made it difficult for new foreign investors to gain a foothold on the market, but it did favour the established auto manufacturers. The new chairman of the management board of VW do Brasil Wolfgang Sauer, with his long-standing experience of Brazil, even expected the government to be sympathetic to VW in recognition of that fact that its actions as a manufacturer and investor were fully in keeping with the regime's principles.<sup>92</sup> Based on the incentives on offer, VW do Brasil showed itself very willing to fulfil the government's target of a billion US Dollars' worth of exports in the period from 1973 to 1982. While up to 1973 the protectionist national auto markets in Latin America meant that VW do Brasil was only able to export passenger cars to Peru, it did supply vehicle components to VW of South Africa and, from 1974, shipped tens of thousand of engines and gearboxes a year to Germany for the Passat.<sup>93</sup>

In view of the substantial financial incentives for exporters in the form of export premiums, the management board of the parent company agreed to VW do Brasil's proposal to relocate some of the Group's engine production away from the Baunatal plant in Germany to Brazil. From 1974 onwards, the Passats sold on the Mexican market no longer came as CKD kits from Wolfsburg, but from VW do Brasil.<sup>94</sup> As the Brazilian government subsidised the export of a CKD Passat at 20% of the production price (DM 1,164), the entire VW Group profited from its export promotion policies. In 1973, Volkswagen AG billed an internal transfer price of DM 5,724 for a CKD Passat made in Wolfsburg, whereas the CKD Passat from Brazil cost just DM 4,475 after deduction of the export subsidy. As the auto industry in Germany was still booming in 1973, and there was a shortage of semi-skilled workers on the German labour market, the VW AG management board was unconcerned about the personnel policy implications of making 243 staff in Wolfsburg redundant.<sup>95</sup>

The continually rising production, and the associated steady increase in the workforce, generated economic growth and higher employment, and helped the government achieve its economic development goals. As the biggest privately owned industrial concern in Brazil, and the country's fifth largest company, VW do Brasil was a key player in the Economic Miracle which saw Brazil's economy grow by an average 10% a year between 1967 and 1973<sup>96</sup>. The phrase "Brazilian Economic Miracle" (*milagre econômico brasileiro*), referring to the seven years of strong

91

Letter from Leiding to Sauer, August 14, 1973, in: UVW 174/576/1.

92

Report by Sauer to Leiding, July 16, 1973, in: UVW 174/576/1.

93

Briefing by the VW AG Investments department, May 7, 1973, in: UVW, 69/345/1; minutes of the management board meeting on August 21, 1973, in: UVW, 69/731/1.

94

Audit mandates for August 1972 and June 1973, in: minutes of the management board meetings on August 31, 1972 and June 5, 1973, in: UVW, 69/730/1; draft resolution for the management board meeting on August 21, 1973, in: UVW 1199/167/2.

95

Internal memo from the Economics department to the Investments department, July 13, 1973, in: UVW, 1199/167/2.

96

Data on the position of VW within the Brazilian economy according to "Brazilian Trends" 1973 (as of 1972).



97

Refer to the explanation of the term on the website of the Fundação Getúlio Vargas, Brazil's largest and most well-respected economic research institute (<http://www.fgv.br/cpdoc/acervo/dicionarios/verbete-tematico/milagre-economico-brasileiro>, accessed May 24, 2017).

98

Report by Werner P. Schmidt to Leiding, March 29, 1973, in: UVW, 174/576/1.

99

According to the report by the chairman's then secretary, in: "Sauer, O homem Volkswagen".

100

Humphrey, "Brazilian Auto Industry", pp. 40-44.

101

Telex from Leiding to Schmidt, February 20, 1973, in: : UVW, 174/576/1.

102

Minutes of the VW do Brasil management board meeting on February 1, 1973, in: UVW, 174/576/1.

growth prior to the first oil price crisis (1967-1973), has – like the German word "Wirtschaftswunder", with the same meaning of "economic miracle" – become an established part of the terminology in the study of history and economics, and is also used in popular portrayals of Brazilian history.<sup>97</sup>

The shortage of qualified staff during the boom did not result in pressures for pay rises in the auto industry because of the government wage controls. For example, the Ministry of Labour and the labour courts stipulated a pay rise of just 18% for 1973. Despite the economic boom, pay rises remained one percent below the real inflation rate in 1972, and in 1973 their rate of rise was even to fall 4.7% below inflation. The VWB chairman from April 1971 to June 1973, Dr. Werner P. Schmidt, reported to VW AG chairman Leiding on doubts among the Brazilian public about the government's inflation figures.<sup>98</sup> As Schmidt had been in charge of VW do Brasil for only two years, and spoke little or no Portuguese,<sup>99</sup> the information indicating that inflation was perceived to in fact be higher originated from his Brazilian staff. It was subsequently to be proved that inflation was not only perceived as higher, but was indeed measurably higher. The corrected inflation rate published in 1975 by the trade union economic and social research institute DIEESE confirmed the suspicion that the inflation index had been manipulated. From 1965 to 1968, and from 1972 to 1974, the official inflation figures, that served as the decision-making basis for pay rises, were lower than the actual rise in the cost of living.<sup>100</sup>

The management of VW do Brasil had predicted a higher inflation rate in February 1973, and had costed-in a pay rise of 21%. VW AG chairman Leiding began to question whether VW do Brasil was in fact "overdoing it" in reducing its personnel costs, and failing to pay its employees appropriately despite the very healthy state of the business.<sup>101</sup> He expressed concerns about the VW do Brasil management board's plans to postpone upgrading employees to the next pay scale by three months, to delay implementing the 1% performance bonus until the second half of 1973, and to apply "the most stringent criteria" when re-evaluating posts.<sup>102</sup> Leiding was well acquainted with the situation at VW do Brasil from his own experience. He had worked for VW from 1945 to 1965, and from 1965 to 1968 for what was then Auto Union GmbH, had headed VW do Brasil from 1969 to 1971, and was aware of the striking contrast between the collaborative industrial relations at VW and Audi and the authoritarian paternalism of VW do Brasil.

While VW AG accepted above-inflation pay rises and enabled its employees to share in the benefits of productivity improvements through increases in real pay rates, VW do Brasil held firm to its rigid pay policy. It exploited the government's pro-business wage policy to generate higher profits at the expense of its employees. VW do Brasil's productivity rose much faster than the average pay of its employees:

**TABLE 3: PRODUCTIVITY TREND 1960-1972**<sup>103</sup>

Year	Productivity
1960	100
1966	203
1968	222
1970	274
1972	344

Average annual rise in productivity: 10.9%

**TABLE 4: TREND IN AVERAGE PAY RATES 1960-1972 (INFLATION-ADJUSTED)**<sup>104</sup>

Year	Average pay rates
1960	100
1966	126
1968	138
1970	158
1972	180

Average annual real increase in pay: 5.0%

These figures show that VW do Brasil did not allow its employees to share appropriately in the advances in productivity being made, and did not really enable them to profit from their improving performance. The enormous rise in productivity was achieved not only by continually expanding production (economies of scale) and fitting out the plant with state-of-the-art machinery from Germany. As there were no Works Councils in Brazil, the plant management was able to shorten the set production times without the workers having any formal means of objection, and so improve productivity without increasing capital investment.<sup>105</sup> Because the auto industry's high productivity levels meant that it was able to pay significantly higher wages than the average in Brazilian industry, VW do Brasil did not have to worry about losing qualified staff to other sectors. The average monthly pay in the auto industry in its main city of São Bernardo in March 1976 was 2,870 Cruzeiros – equivalent to US\$ 300.<sup>106</sup>

103

Statistics from VW do Brasil on trend in production 1960-1972, in: Internal memo from the Economics department to the Investments department, July 13, 1973, in: UVW, 1199/167/2. The productivity figures were calculated from the number of vehicles produced per employee per year. This figure is neutral in terms of inflation, as it relates to a material variable rather than a monetary variable, but does not reflect inflation-adjusted falls in selling prices. Applying monetary variables, the rise in productivity would be less, even though the average value per vehicle sold was on an upward trend as a result of the change in the product range and the production of more expensive models (such as the VW 1600).

104

Statistics from VW do Brasil on trend in production 1960-1972.

105

Minutes of the VW do Brasil management board meeting on February 28, 1969, in: UVW, 1053/62/1.

106

Humphrey, "Brazilian Auto Industry", p. 53. However, the median figure (above which 50% of employees earned more, below which 50% of employees earned less) was just \$240, owing to the distortion by some particularly well-paid salaried and skilled staff.

107

Regarding the VW plant in Braunschweig see Ulrike Gutzmann/Markus Lupa, "Vom 'Vorwerk' zum FahrWerk: Eine Standortgeschichte des Volkswagen Werks Braunschweig" [From the 'Vorwerk' to a full-scale plant: a history of the Volkswagen plant in Braunschweig], Wolfsburg 2008.

108

Data on dividend trends from 1961 to 1972 in UVW, 69/345/1.

109

Minutes of a meeting of the VW do Brasil management board with Leiding, October 30, 1973, in: UVW 174/577/1.

110

Report by the VW AG International Investments department, June 18, 1979, in: UVW, 1184/355/1.

111

Statistics from the VW AG International Investments department, undated, in: UVW, 587/6/229.

It is not possible to compare productivity rates (measured in vehicles produced per employee per year) directly with the parent plant in Wolfsburg, because of the differing production depth. Whereas the plant in São Bernardo do Campo made all its own vehicle components, in the 1960s the VW parent plant in Wolfsburg was already integrated into a multi-centre manufacturing network. Relatively labour-intensive production processes, such as the fabrication of front axles, steering columns and gearboxes, had been outsourced to the component plants at Braunschweig and Baunatal since the mid-1960s.<sup>107</sup>

One might object to criticism of the divergence between productivity and real pay rates by claiming that an annual dividend of 10 to 12% of share capital was not excessively high.<sup>108</sup> Viewing the dividend payments in isolation, however, masks the high levels of retained earnings by which VW do Brasil financed a major part of its capital investments. As the Central Bank only allowed a 12% dividend transfer, VW do Brasil's dividend payments remained substantially below its actual earning power. The high levels of retained earnings were used for self-financing. As opposed to VW AG, VW do Brasil managed to maintain unusually low levels of long-term debt through until the late 1970s, financing its capital investment programmes largely from its own funds.<sup>109</sup> Compared to its competitors on the Brazilian market, VW do Brasil was characterised by capital-saving stock-holding and efficient claims management, by which it cut the opportunity cost of lost interest on capital.<sup>110</sup>

**TABLE 5: CASH FLOW (AS % OF INVESTMENT) 1968-1975<sup>111</sup>**

Year	Cash Flow
1968	93.1%
1969	88.0%
1970	163.3%
1971	84.0%
1972	111.3%
1973	66.5%
1974	37.8%
1975	80.6%

Average 1968-1975: 84.3%

Because VW do Brasil's liabilities were largely limited to short-term supplier payables, its expenditure on outside capital interest (1968 to 1975 cumulatively: DM 165.0 million) was correspondingly low.<sup>112</sup> With a debt ratio of just 3.5%, VW do Brasil was almost entirely unreliant on external sources of finance.<sup>113</sup>

VW do Brasil did not only transfer its surpluses in the form of dividends. Up to and including 1975, the Brazilian Central Bank also approved the transfer of licence fees and flat-rate consulting fees.<sup>114</sup> The Central Bank only rescinded its permission to transfer licence and consulting fees when Brazil's balance of payments turned negative owing to the deterioration in terms of trade (the ratio of export prices to import prices) following rises in oil prices, and it became necessary to reduce the outflow of money abroad. For example, in 1972 and 1973 VW do Brasil transferred DM 17.9 million and DM 17.2 million respectively to its parent company in the form of licence and consulting fees, thereby improving the Group's cash flow.<sup>115</sup> As the Central Bank partially offset dividend payments against licence payments, however, VW AG did not receive both sources of income in full.

112

Figures according to UVW, 587/6/229.

113

Ibid.

114

Minutes of the management board meeting on January 15, 1974; also UVW, 1199/167/2.

115

Briefing by the VW AG Investments department, April 25, 1973, in: UVW, 69/345/1.

116

UVW, 69/345/1.

**TABLE 6: DIVIDEND PAYMENTS BY VW DO BRASIL 1961-1972**<sup>116</sup>

Year	Dividend payments
1961 - 1966	10% (all shares)
1967 - 1968	10% preference shares, 6% ordinary shares
1969 - 1971	10% (all shares)
1972	14% preference shares, 10% ordinary shares

117

Overview in UVW, 69/345/1. The transfers include dividends and consulting fees.

**TABLE 7: TOTAL TRANSFERS BY VW DO BRASIL TO VW AG 1971-1973**<sup>117</sup>

Year	Total transfers
1971	DM 35.8 mil.
1972	DM 45.3 mil.
1973	DM 54.3 mil.

118

Overview of international investments I, May 22, 1981, in: UVW, 1184/361/2.

119

Memo from Leiding to Finance Director Dr. Friedrich Thomée, October 24, 1973, in: UVW, 1199/167/2. This was common practice as far back as the early 1960s, during the expansion phase of the plant in São Bernardo do Campo (Wellhöner, "Der Fall Volkswagen" [The Volkswagen case], p. 260).

120

UVW, 587/6/229.

From 1962 to 1980, VW AG received DM 594 million in dividends and licence and consulting fees from its Brazilian subsidiary – a yearly average of DM 31.3 million.<sup>118</sup> It should be noted in this context that VW AG owned only 80% of VW do Brasil; 20% of the share capital was held by the Brazilian Monteiro Aranha group. With share capital of DM 176 million (in 1972), annual dividend payments to VW AG from VW do Brasil during the boom period of high earnings were very substantial.

It was additionally possible to transfer surpluses out of Brazil by means of internal supplies from VW AG to VW do Brasil. VW do Brasil regularly procured used machinery and tools from VW AG which were no longer needed at the German plants and had been replaced by new investments. These machines were largely, or even completely, written off of VW AG's balance sheet. VW AG sold them to its Brazilian subsidiary at fair market value rather than at the lower carrying amount, thereby generating additional income, and resulting in more money flowing back to it.<sup>119</sup> Conversely, this practice reduced the profits that VW do Brasil had to declare to the Brazilian tax authorities. The following figures setting out the after-tax earnings of VW do Brasil reveal what surpluses the company was generating in the form of dividends and licence and consulting fees:

**TABLE 8: NET INCOME FROM INVESTMENT IN VW DO BRASIL 1968-1975<sup>120</sup>**

<b>Year</b>	<b>Net Income</b>
1968	DM 75.9 mil.
1969	DM 72.7 mil.
1970	DM 93.8 mil.
1971	DM 122.9 mil.
1972	DM 94.4 mil.
1973	DM 99.2 mil.
1974	DM 103.1 mil.
1975	DM 83.9 mil.

Total 1968-1975: DM 746.9 mil.

The very high levels of income and the restricted transfer options made it possible to divert major portions of surpluses into strengthening the company's equity base and the self-financing of capital investments. Although Volkswagen AG only raised VW do Brasil's share capital by a small amount through injections of capital between 1968 and 1975, the company's capital almost quadrupled. According to an analysis by the Investments Department I at VW AG, the concern's investment in VW do Brasil had by 1981 self-generated 75% of its acquisition value through the reinvestment of profits, consulting and licence fees.<sup>121</sup>

121

Analysis by Investments Department I dated May 22, 1981 concerning the investment in VW do Brasil, in: UVW, 1184/361/2.

122

Statistics from the VW AG International Investments department I, in: UVW, 587/6/229.

**TABLE 9: ASSETS OF VW DO BRASIL 1968-1975**<sup>122</sup>

Year	Assets
1968	DM 359.1 mil.
1969	DM 470.6 mil.
1970	DM 568.4 mil.
1971	DM 692.1 mil.
1972	DM 854.4 mil.
1973	DM 1,007.5 mil.
1974	DM 1,240.2 mil.
1975	DM 1,348.8 mil.

From the Group's perspective, VW do Brasil generated impressive returns in the years of the Brazilian Economic Miracle.

123

Ibid.

124

Ibid. (figures as from 1968). Figures for 1958 to 1961 according to Wellhöner, "Westdeutscher Fordismus" [West German Fordism], p. 290.

**TABLE 10: RETURN ON INVESTMENT (ROI) OF VW DO BRASIL 1968 TO 1975<sup>123</sup>**

<b>Year</b>	<b>Return of investment</b>
1968	49.5%
1969	33.6%
1970	54.8%
1971	47.5%
1972	40.1%
1973	27.5%
1974	14.6%
1975	14.2%

**TABLE 11: RETURN ON SALES OF VW DO BRASIL 1968-1975<sup>124</sup>**

<b>Year</b>	<b>Return of sales</b>
1958	8.2%
1959	6.5%
1960	5.3%
1961	3.6%
1968	15.3%
1969	12.2%
1970	18.8%
1971	17.0%
1972	16.8%
1973	13.1%
1974	4.6%
1975	3.1%

The end of the Brazilian Economic Miracle at the time of the first oil price crisis (in 1974) and the consequences of the global recession were reflected in less impressive returns. Although Brazil's economy continued to grow much faster than its European counterparts – at 9.0% in 1974, and 5.2% in 1975 – rising inflation rates (1973: 22.7%; 1974: 34.8%; 1975: 33.9%) and significantly increased fuel prices meant that the rise in sales slowed.

**TABLE 12: RETURN ON SALES OF VW DO BRASIL 1976-1979  
(IN BRACKETS: VW AG)<sup>125</sup>**

Year	Return of sales
1976	2,7% (4,6%)
1977	2,7% (1,7%)
1978	2,5% (1,6%)
1979	3,5% (1,8%)
1980	-1,7% (1,2%)

VW do Brasil was forced to revise its medium-term sales programme laid out in October 1973 during the boom. Shortly before the start of the oil price crisis, the management board had projected the euphoria of ongoing growth into the future, forecasting an increase to 776,000 vehicles a year in 1978.<sup>126</sup> The rise in sales did not attain the highly optimistic expectations of 1973. In 1979, VW do Brasil sold 525,000 passenger cars and vans, which was to represent the peak of its production. The relatively mild slowing of the boom in the auto industry allowed VW do Brasil to avoid making heavy investments in new models. While the front-wheel drive, water-cooled Passat was additionally built in Brazil from 1974 onwards, the Group management board postponed the planned production of the VW Polo in Brazil.<sup>127</sup> During the 1970s VW do Brasil significantly increased its expenditure in the development of its own models, and by the end of the decade was employing around 1,000 well-paid staff in Research and Development. This – alongside the reduced scope for price increases and the lower economies of scale with a more diverse model portfolio – was a further reason for the lower, but still, adequate, returns on sales.

125

Overview in the appendices to the minutes of the management board meeting on September 8, 1981. The figures from 1976 onwards are recorded in local currency (Cruzeiros or DM as appropriate), but are not comparable to the figures up to 1975. Up to 1975 the return on sales was stated before tax; in subsequent years after tax.

126

Report by VW do Brasil to VW AG, October 24, 1973, in: UVW 174/577/1.

127

Minutes of the management board meeting on November 6, 1973, in: UVW, 69/731/1.



The first oil price crisis, and the recession resulting primarily from it, had a significant impact on car sales in Germany. In the crisis year 1974, VW AG suffered a record loss of DM 800 million, and made a loss in 1975 too. By contrast, growth at VW do Brasil was slower than before, but business was stable. By the end of the 1970s, VW do Brasil was still a reliable – if no longer quite as lucrative – source of earnings for the Group. The era of substantial double-digit returns on sales had ended for ever with the first oil price crisis.



## 6. VW do Brasil and the persecution of political opponents of the military regime

The imposition of the Emergency Powers Act No. 5 in December 1968 initiated and legalised greater repression of political opponents of the dictatorship by the state security organs. In June 1969, the Brazilian Army, the Police of São Paulo state (*Polícia Estadual*) and the Federal Police (*Polícia Federal*) formed a special unit (*Operação Bandeirante* – OBAN) to combat armed and unarmed left-wing activists in Brazil's largest city São Paulo.

128

On this refer to Elio Gaspari, “A Ditadura Escancarada” [The open dictatorship], São Paulo 2002, pp. 62ff.

The OBAN was not solely reliant on funding from the organs of state in the financing of its technical equipment. As early as 1968, the members of the São Paulo state industrial confederation (*Federação das Indústrias do Estado de São Paulo* – FIESP) agreed to provide the government with financial support in combating political opponents.<sup>128</sup> From the time of its founding, the OBAN used vehicles from VW do Brasil and Ford to carry its officers on their missions and to transport arrested persons to its interrogation centre at Rua Tomas Carvahal 1030 in a prosperous district of São Paulo. Many of those arrested were also tortured in the course of their interrogation. The most prominent victim of torture by the OBAN was the 23-year-old student and later President of Brazil Dilma Rousseff, who was held for 22 days in January/February 1970.

As no official OBAN records remain, the question as to what material assistance it was given by the auto industry generally, and by VW in particular, can only be answered by witness statements from former OBAN officers. The former sergeant Marival Chaves Dias do Canto told the “Journal do Brasil” newspaper in 1992 that auto manufacturers had provided the OBAN with vehicles free of charge. In view of the witness's comparatively low rank, however, there is considerable uncertainty as to whether he would have had knowledge of financial matters as part of his duties, or whether his statement was founded on supposition or rumour. As the FIESP industrial confederation actively supported the OBAN, and VW was a leading member of the FIESP, it seems likely that VW do Brasil did provide material assistance to the OBAN either directly (through the supply of vehicles) or indirectly (through its FIESP membership fees).

The surviving records of the Political Police (*Departamento Estadual de Ordem Política e Social* – DEOPS) for the period from 1969 contain evidence of a regular exchange of information between VW do Brasil's in-house Works Security department (*Departamento de Segurança Industrial*) and the repressive organs of the dictatorship. From 1969 onwards, the Works Security department was headed by Brazilian Army officer Ademar Rudge, who bore the rank of major on his recruitment. By the time he retired from working for VW do Brasil in 1991, the Brazilian Army Reserve had promoted him to the rank of colonel (*Coronel*). It was

129

Würtele, “Gewerkschaftsbewegung” [Trade union movement], p. 331.

130

José Casado, “Repressao no pátio do fábrica”, in: “O Globo”, May 15, 2005. This article was based on DEOPS files which the historian Antonio Luigi Negro had viewed when researching in the São Paulo state archives for his book “Linha de montagem” (São Paulo 2004).

131

“Volkswagen vista por seus operários” (undated, 1970), in: AESP, DEOPS inventory.

132

Arquivo Público do Estado de São Paulo” [São Paulo state archive, AESP], DEOPS inventory, 50-D-007-1393.

133

Report by Rudge to DEOPS, December 11, 1969, in: AESP, DEOPS inventory, 50-Z-030-0822.

not unusual for VW to appoint an Army officer as head of its Works Security. Rudge’s predecessor, who had been appointed even before the military coup, was promoted to the rank of a reserve general during his time at VW. In 1973, there was one member of the *Departamento de Segurança Industrial* for every 79 employees,<sup>129</sup> so it was able to keep the plant under almost complete surveillance.

Unfortunately, the records of the DEOPS contain no documents indicating whether the willingness of Works Security to provide information was based on a formal written agreement. A meeting between the heads of the security departments of a number of major auto manufacturers (VW, General Motors and Chrysler) and tyre manufacturers (Goodyear, Firestone) with the head of the Political Police for the São Bernardo do Campo region on November 11, 1969 saw the establishment of routine collaboration on security matters.<sup>130</sup> This included, from the very beginning, an exchange of information on subversive activities of employees directed against the military regime. In view of this understanding, and the regular communications with the Political Police, the leadership of the Works Security department regarded it as a matter of course that they would inform the police and military of anti-regime political acts by company employees. A newspaper printed by the illegal Communist Party of Brazil (PCB) and smuggled into the plant claimed that officers of the Political Police and of the country’s domestic intelligence service, the SNI (Serviço Nacional), were also working for Works Security.<sup>131</sup> As the Works Security department was collaborating with the Political Police anyway, this would be at least likely.

The first evidence of collaboration by the Works Security department with the Police originates from June 16, 1969, when the Air Force Staff informed the DEOPS that subversive flyers had been discovered at the plant.<sup>132</sup> The flyers, which the Air Force intelligence service ascribed to militant activists belonging to the Communist Party of Brazil (PCB), called on the workers to strike for a 45% pay rise. For reasons that cannot be determined, rather than informing the Political Police of the matter, Works Security had informed the military, which then passed the information on to the Police. In the following months, Works Security discovered a hectographed flyer produced by opponents within the trade union organisation titled “*O Macaço*” [The boiler suit] which called on the workers to strike, demanded a 50% pay rise, and criticised the government-controlled wage policy.

On December 11, 1969, the head of Works Security informed the Political Police that his staff had found the illegal newspaper “*O Ferramenta*” [The tool] in toilets, changing rooms and stairwells at the start of the early shift. The Works Security department did not just uncover subversive activities. With no formal request from the Political Police, it disclosed the names of four suspects.<sup>133</sup>

The main suspect was electrician José Miguel, whom the VW personnel department had already fired on December 5, 1969 for displaying the newspaper.<sup>134</sup> Although Works Security could only prove that the other suspects – Genezio Floriano Alves, André Inamorato Pardo and Idalecio Custodio da Silva – had been in possession of the flyers rather than having distributed them, it placed them under surveillance from then on. The Works Security department provided the Political Police with a report on all four suspects, including photographs and information from their personnel files.<sup>135</sup> The information on Miguel was to help the Political Police break up a grouping of the illegal Partido Comunista do Brasil (PCdoB), which had been formed as a Maoist break-away movement from the Moscow-orientated PCB in 1962. The Police got on the trail of Miguel – whom they had previously known only by his code-name “Macedo” – through the interrogation of two fellow suspects.<sup>136</sup>

The records of the Political Police contain a number of illegal newspapers and flyers which were distributed by members of small illegal Communist groups at the VW plant in 1970 and 1971 and passed on by the Works Security department to the Political Police. Their contents indicate that the authors had been provided with insights into VW by workers at the plant, or were themselves company employees. In December 1970, for example, “*Unidade Operaria*” [Workers’ unity] reported on a big fire on the site which had gutted the paint shop in shed 13. “*Unidade Operaria*” accused the plant management of having sent staff into the burning shed in order to save combustible paints and solvents from the fire. It claimed that only the intervention of the Fire Service stopped the management from continuing to place the lives of its workers at risk.<sup>137</sup> “*Unidade Operaria*” was in fact referring to a major fire which occurred on December 17, 1970. As VW records contain no reports on the fire, and the legal press gave few details of casualties because of the country’s censorship laws, these allegations cannot be verified.

The newspaper “*Luta Operaria*” [Workers’ struggle] published by the illegal Communist Party of Brazil (PCB) likewise reported on the fire in its January 1971 issue.<sup>138</sup> It accused the mainstream press of glossing over the number of injured (two) and dead (one),<sup>139</sup> reported on the hushed-up death of a forklift truck driver in an accident during clearance operations, and criticised the speed of work following the fire as “indescribably high”. As the plant management was keen to make up for the lost production as quickly as possible in order to keep up with the high demand for cars, the third allegation at least appears entirely plausible. By February 1971, and prior to the completion of the new building, daily production had reached 750 vehicles – three quarters of the normal rate.

134

José Miguel (b. August 17, 1943) had worked at VW since January 1969. Based on the information from Works Security, the Personnel Department decided that “in the interests of our business, this person should not be re-employed”.

135

Report by Segurança Publica on subversive flyers at VW, January 6, 1970, in: *ibid*.

136

Letter from the commander of Department 2 of the Second Army to the director of DEOPS São Paulo, February 10, 1971, in: AESP, DEOPS, 50-Z009-22905; statement by Antonio Carlos Lopez Granado under interrogation by DEOPS, January 21, 1972, in: AESP, DEOPS, 50-Z-9-16333; questioning of José Miguel Macedo by the DOI/CODI, January 22, 1972, in: AESP, DEOPS, 50-Z-009-28071.

137

“*Unidade Operaria*”, no. 20, December 1970, p. 2, in: AESP, DEOPS, 50-Z-030-0822.

138

“*Luta Operaria*”, no. 32, January 1971, in: AESP, DEOPS, 30-C-160-9914.

139

According to the report in the newspaper “*O Estado de São Paulo*”, December 20, 1970, in: UVW, 1053/12/2.

140

AESP, DEOPS, 30-C-160-9914. The veracity of this flyer could likewise not be verified.

141

AESP, DEOPS, 50-Z-318-3421.

142

AESP, DEOPS, 50-Z-341-0610.

143

Information from the Air Force Ministry to the DEOPS, July 21, 1971,  
in: AESP, DEOPS, 50-D-7-1714.

In April 1971, the Political Police discovered a flyer from the militant Communist group ALN (*Ação Libertadora Nacional*) in the possession of VW worker Dimas Antonio Casemiro. The group had split off from the Communist Party of Brazil (PCB) in 1967, and in 1969/1970 had kidnapped the Ambassadors of the USA, West Germany and Switzerland in order to force the release of imprisoned comrades. The flyer reported that, following the announcement of a major recruitment drive, thousands of people seeking work had gathered at the VW factory gates. After having waited for hours at the gates, it claimed, many of them had become impatient and angry, in response to which the attending police had broken the crowd up using batons.<sup>140</sup> It is possible – though not completely certain – that the Political Police captured the VW worker Casemiro as a result of information from the Works Security department.

Back in 1970, Works Security had discovered a flyer from the PCB in a toilet in shed 1 accusing the head of the local metalworkers' union of being "a plain-clothed police officer", and alleging that he was intending to split the metalworkers' union by establishing a separate auto workers' union.<sup>141</sup> A PCB newspaper titled "*Volkswagen vista por seus operarios*" [Volkswagen from its workers' viewpoint] discovered the same year published information on the working conditions at VW which could only originate from company employees. The newspaper mainly criticised the pay structure, whereby wage rises were restricted by government constraints, and the fact that workers had received only a commemorative coin to mark the one millionth car produced by VW do Brasil rather than a special bonus.<sup>142</sup> While the plant management celebrated the in-house leisure club (VW Club) for the employees and their families, the PCB criticised its high membership fees and the additional charges for special events such as the annual beer festival. From the viewpoint of the Works Security department and the plant management, the criticism of the company's inadequate accident prevention measures were the most serious. The newspaper criticised the failure to provide welders with safety gloves, as well as other general failings in relation to accident prevention, and reported on five fatal work accidents in the last six months.

In July 1971, the Air Force intelligence service – most likely by way of an informant – gained possession of a PCB training document advising "How to establish the party in a big company".<sup>143</sup> The "big company" was VW do Brasil. This training document revealed that the PCB cell at the São Bernardo do Campo plant had been launched in 1968 with four active members. As there was little mood of opposition among the workers at VW and throughout the auto industry at that time because of the high pay levels, Communist activists focused on agitating among more highly qualified staff with greater political awareness. To their disappointment, the

class consciousness of the, in some cases, virtually illiterate unskilled and semi-skilled workers was much too underdeveloped for them to be mobilised politically. Although qualified specialists were in a minority, and thanks to their high levels of pay formed part of Brazil's middle class, their higher education made them appear more receptive to Communist ideas. Despite their privileged position enjoying greater job security, the qualified specialist staff were regarded by the Communists not – as according to Lenin's theory – as a materially corrupted worker aristocracy, but rather as the potential avant-garde of the working class.

The experience of the Communist activists was to reaffirm their expectations. By 1971, they had established an illegal party cell with 32 members including newly recruited specialist staff and salaried employees.<sup>144</sup> The group had a typewriter and a stencilling device, so they were able to print their own flyers and small newspapers, and distribute them secretly around the plant. The group was aware that the Works Security department was monitoring subversive activities. It benefited from the fact that one of its members – the quality inspector Amauri Danhone – was able to move freely around the plant in his role as voluntary trade union secretary, whereas most production staff were restricted to their own specific work area. For security reasons, verbal propaganda was restricted to the group's members, who were aware of the risk of arrest and interrogation. As the group members risked lengthy interrogation and even torture if arrested, they introduced themselves only by their code-names.<sup>145</sup> Because the plant premises were under constant surveillance by Works Security, the group's secret meetings were always held away from the site. Amauri Danhone was a board member of the local metalworkers' union, so the group was able to use a room at the São Bernardo do Campo chemical workers' union for its meetings.

This training document told the Political Police that a Communist group existed at the VW plant. There is no evidence that the Political Police shared this knowledge with the Works Security department. Political Police officer Lucio Vieira did, however, report to his superiors that there was close cooperation with Works Security in the course of the investigations into Communists at VW. The Works Security department's disclosure of the discovery of illegal flyers and newspapers helped the Political Police to obtain information about Communist activities at VW and to tighten the net in the search for suspects. In the Spring of 1972, for example, the Works Security department provided the *Polícia Militar* (Military Police) with information about its employees Lucio Bellentani and Amauri Danhone, who were standing as candidates in the elections to the board of the local metalworkers' union on behalf of the opposition *Chapa Azul* [Blue List] and were suspected of being PCB activists. On request from the Political Police, Works Security provided data on 28 VW employees whom the Police were investigating.

144

Confidential report by the DEOPS, July 21, 1971; cf. the report of the SNI (Serviço Nacional de Informações) on Communist infiltration of trade unions, December 16, 1971, in: AESP, DEOPS, 50-D-7-1714.

145

Report by DEOPS chief Lucio Vieira on the interrogation of Amauri Danhone on August 4, 1972; August 7, 1972, in: AESP, DEOPS, 30-C-1-22496. Danhone was also a candidate of the only legal opposition party MDB for the municipal council elections in Diadema.

146

Anita Leocádia Prestes was born on November 27, 1936 in the women's prison at Barnimstrasse in Berlin, after the Brazilian government had extradited her mother to the German Reich. Anita Prestes was sent back to her grandparents in Brazil at the age of 14 months, but her Jewish mother Olga Benario was murdered at Bernburg prison in 1942. In 1974, Anita Prestes was sentenced in her absence to four and a half years' prison by a Brazilian military court. Following her amnesty in September 1979, she returned to Brazil and was made professor of history at the Federal University of Rio de Janeiro (Universidade Federal Rio de Janeiro).

147

Bellentani (b. November 30, 1944; at VW since 1964) was the group secretary responsible for agitation and propaganda. Personal details of the detainees in AESP, DEOPS, 50-Z-009-26099, 50-Z-009-26092, 50-Z-009-26082 and 50-Z-009-26064.



148

See footnote 147. Torini (b. September 22, 1941) had been with VW since 1964.

149

See footnote 147. Geraldo Castro del Pozo (b. August 9, 1943) had been with VW since 1968.

150

See footnote 147. Plagge (b. February 5, 1939; at VW since 1960) was the group's political secretary.

151

See footnote 147. Buschel (b. May 23, 1949) was the group's treasurer.

152

<https://www.kooperation-brasilien.org/de/themen/menschenrechte-gesellschaft/50-jahre-militaerputsch/1972-wurde-ich-innerhalb-des-vw-gelaendes-verhaftet> (accessed May 30, 2017). The original transcript of his testimony can be found in: Comissão Nacional da Verdade "Vladimir Herzog", Relatório Final, São Paulo 2013, pp. 48-51 ([http://www.vereadornatalini.com.br/PDF/relatorio\\_final\\_comissao\\_da\\_verdade.pdf](http://www.vereadornatalini.com.br/PDF/relatorio_final_comissao_da_verdade.pdf)).

153

1937 to 1945.

The illegal cell at the São Bernardo do Campo plant was part of the PCB's regional party organisation in the greater São Paulo area. The most prominent member of the regional party organisation was the chemical engineer Anita Leocádia Prestes, daughter of the long-standing PCB chairman Luis Carlos Prestes (1898-1990) and his German partner Olga Benario (1908-1942).<sup>146</sup> Anita Leocádia Prestes chaired the regional Communist Party organisation, and was mainly responsible for the political education of the membership. In that role, she gave a number of lectures to the party cell at VW. While Anita Prestes was able to leave Brazil in time, emigrating to the Soviet Union, six members of the party cell were arrested by the Police between July 29 and August 8, 1972.

The first VW employee to be arrested – on July 29, 1972 – was the 40-year-old Amauri Danhone. On the same day, the Police arrested the tool-maker Lucio Bellentani;<sup>147</sup> on August 2 they arrested the tool-maker Antonio Torini;<sup>148</sup> and on August 8 the milling machine operator Geraldo Castro del Pozo,<sup>149</sup> inspection foreman Heinrich Plagge<sup>150</sup> and secretary Annemarie Buschel.<sup>151</sup> Following six to seven weeks in police custody, under intensive interrogation at the Political Police gaol in Rua Mauá in the centre of São Paulo, on September 19, 1972 they were transferred to the Army interrogation centre (*Destacamento de Operações de Informação* – DOI; literally “special command for the procurement of information”) and brought back to the Political Police gaol later the same day.

Lucio Bellentani testified before the Truth Commission of the city of São Paulo on July 19, 2012 concerning his arrest on the VW plant premises and his brutal treatment by officers of the Political Police:<sup>152</sup>

*I was a member of the Brazilian Communist Party. I joined the party in September 1964. My father was imprisoned during the dictatorship of Getúlio Vargas<sup>153</sup> because he was also a member of the Brazilian Communist Party. He was also a municipal councillor at the time. I was very proud to join the party, as my father before me had been involved in the struggle, and the struggle was still going on.*

*At that time I was working at Volkswagen in São Bernardo, and that is where my activism began. We started organising the party base in the São Bernardo do Campo factory, and that had a pretty big resonance within the party. We were very well organised at the plant. I was involved in 1970, for example, as one of the organisers of the opposition group to the São Bernardo do Campo trade union leadership. That was the first election in which Lula stood as a substitute candidate of the union. He was the last on the election list at the time, and I was part of that opposition election group.*

*It was in 1972 that I was imprisoned. In 1972 I was arrested on the VW site. I was working, and two guys came up to me with a machine pistol, which they pushed in my back, and immediately place me in handcuffs. That was about 11 o'clock at night. The torture started as soon as I entered the Volkswagen Works Security room: I was beaten straight away; slapped and hit with fists. They wanted to know whether there was anyone else involved at Volkswagen. The party base at Volkswagen comprised about 250 people at the time.<sup>154</sup>*

*They took me to prison; to the DOPS [torture centre].<sup>155</sup> On that day I was only beaten for two hours or so, then they threw me in a cell, and it wasn't until the next day that I was collected by Commissar Acra's squad. The next day, I was handed over to Commissar Fleury's<sup>156</sup> squad, who put me in a huge hall on the third floor of the DOPS building. There was a desk and a chair in the middle. I was sat down there, and for 15 minutes or so Fleury was totally silent, looking at me, with half a dozen torturers [standing] behind him. Then suddenly he said to me: Listen, do you know who was the waiter at the Last Supper? Well, even if you don't know, you're going to tell us here [anyway].*

*That's when it really started: 'pau-de-arara' [torture while bound and suspended from poles]; on my head, my hands, my feet. They broke quite a few of their sticks; I lost lots of teeth. That went on for about another 45 days, because, well: they knew that the party base at Volkswagen was big, but during those 45 days the only ones there were the guy who had betrayed me, and me, and he did not know all the organisation, because we were organised in small groups, and I was the only one who knew everyone.*

*After 45 days, they took the guy who had betrayed me to the factory, and he walked along, pointing out all of them that he knew. Even then, they only got 10 people. Only 10 people were betrayed, arrested and tortured. Fortunately, I managed to stick to the same story from the first moment right to the end, and that's how it stayed.*

*At that time the situation was this: The comrades who had been tortured and persecuted the most were those who were active in the guerrilla movement: the urban guerrillas, the Araguaia guerrillas – the people involved in the armed struggle. They were tortured the most.*

154

This figure is exaggerated. The PCB's internal training document relating to the party group at the VW plant talked of 32 members.

155

Gaol operated by the Political Police (DEOPS, abbreviated here as DOPS) in Rua Mauá in the centre of São Paulo; today a memorial to the victims of political persecution under the military dictatorship.

156

Sérgio Fleury (1933-1979), a Political Police officer from 1968; an infamous torturer and leader of a death-squad against left-wing regime opponents.

157

Army interrogation centre (DOI) in Rua Tutoia, São Paulo.

158

Luis Carlos Prestes and Anita Leocádia Prestes had escaped to the Soviet Union, and were prosecuted and sentenced in their absence.

*After four months at the DOPS, I was taken to the OBAN [torture centre].<sup>157</sup> I got there, and the Captain who was there – I don't know who he was, he was a dark guy – came up to me, looked at me, and untied me. He was furious, because – after four months – what else could you want of a guy like me? There's nothing more you can do with him; and everything they had done at the beginning was worthless after four months. So they sent us back to the DOPS.*

159

Statement by Lucio Bellentani, October 16, 2014, in: Civil suit by trade unionists against VW do Brasil, September 22, 2015, pp. 30f.

*The night before they were supposed to be taking me back to gaol, at one o'clock in the morning, they came into my cell and took me to the third floor. One came then with a coil of rope, a few machine pistols and handcuffs, and said: Today we're really going to make mincemeat out of you. I thought: this is it. I was the only one there. They grabbed me, and wanted to know where a young guy lived who worked at Mercedes in São Bernardo do Campo.*

*Back then, in 1972, around the Mercedes site was just barren land; there was nothing; there was just Mercedes. They took me there, my hands cuffed behind my back, placed the rope around my neck, tied the noose and pulled it tight, walked around me, dragged me in circles across the ground, and wanted to know where the guy's house was. I stood up, and they let off a burst of machine gun fire, but they were blanks, not live bullets. Then they put me back in the car, and one of them came and said: Look, the guys over there are busy chatting. Take your chance and run. I said: If you want to murder me, kill me here in the car; I'm not going to run away. Then they put the handcuffs back on me and took me back to the DOPS.*

*To my surprise, the next day – after having spent six months at the DOPS – I was taken to Tiradentes prison. That's where I got to know Martinelli. He took me in, I was placed immediately in his cell, he greeted me, and we were there together for a time. I waited a year for my trial, and when the verdict was being issued, I found that my co-accused were Luiz Carlos Prestes, and Anita Leocádia Prestes.<sup>158</sup> She had supported us back then, and had even lived in our house. The verdict was issued, but we were all found not guilty due to lack of evidence. I was released.*

The testimony of the witness and victim of the dictatorship's persecution Lucio Bellentani also incriminates the VW Works Security department. While Works Security could not have prevented an arrest on the plant premises, it could have forbidden the abuse that occurred in its offices by exercising domiciliary rights. Bellentani even stated in an interview in 2014 that VW Security chief Ademar Rudge had been present at his arrest, and had obviously been notified of it in advance by the Political Police.<sup>159</sup>

The question as to why the Police only arrested six of the total of 32 PCB members must remain unanswered. Despite his severe abuse at the hands of the Political Police, Bellentani remained steadfastly silent. The other detainees likewise only revealed information relating to group members the Police had already arrested. In view of its conspiratorial intent, the illegal party grouping had not kept a membership list by which the Police could have tracked down all the members. The Police did, however, find a list of 100 names of VW employees who had donated money to the opposition trade union list's election campaign.<sup>160</sup> Contrary to its assessment, the Political Police had not fully rooted out the Communist cell at VW, but by arresting its leaders had rendered it incapable of acting.<sup>161</sup>

The management board of VW do Brasil was notified of the arrests by Works Security. In a detailed nine-page report on the political and economic situation in Brazil, chairman of the management board Werner P. Schmidt also advised his German superior Rudolf Leiding of them. By his choice of words: "Evidently linked to that"<sup>162</sup> also is the arrest of at least five employees of VW do Brasil who have been proven to have been participating in subversive (Communist) activities"<sup>163</sup> he concealed the involvement of the Works Security department, and conveyed the impression that VW do Brasil had not been party to the arrests.

After periods of between six weeks and several months in gaol, the detainees were released from remand and prosecuted before a military court. While Buschel, Danhone, Castro del Pozo and Torini were freed after seven weeks' imprisonment by the end of September 1972, Plagge was not released from Tiradentes prison until some time between the end of October and mid-December 1972. Because of his steadfast silence, Bellentani was the only member of the group who remained imprisoned without charge, for a period of 11 months, until June 27, 1973. Immediately after being released from prison, Bellentani, Danhone, Castro del Pozo, Plagge and Torini were dismissed by VW. In all the cases, the Works Security department demanded that the Personnel department fire them for being "untrustworthy".<sup>164</sup>

Despite the military court being forced to find the accused not guilty of actively supporting the Communist Party due to lack of evidence, the military prosecutor's office lodged an appeal against the verdict. All the accused had to attend an appeal hearing before the Federal Supreme Court in August 1974, and on August 27 were sentenced to two years' imprisonment. Lucio Bellentani, Annemarie Buschel, Amauri Danhone, Geraldo Castro del Pozo, Heinrich Plagge and Antonio Torini began their prison sentences in September 1974. As Bellentani had already spent 11 months in prison in 1972/73, he was released after eight months. The other

160

AESP, DEOPS, 50-Z-009-26088 and 30-C-1-22496.

161

Report by the DEOPS on the activities of the PCB at VW do Brasil. September 12, 1972, in: AESP, DEOPS, 30-C-1-22496.

162

This refers to the arrest of an opposition member of parliament in São Paulo state who, according to Schmidt, was likewise suspected of "Communist agitation".

163

Letter from Schmidt to Leiding, September 26, 1972, in: UVW 174/575/1.

164

Personnel files of Lucio Bellentani, Amauri Danhone, Geraldo Castro del Pozo, Heinrich Plagge and Antonio Torini, in: VW do Brasil, Personnel department registry. Annemarie Buschel, whose personnel file was not viewed, was most likely also dismissed.

165

Letter from the São Paulo military court, September 2, 1974, in: AESP, DEOPS; statement by Lucio Bellentani on October 16, 2014.

166

DEOPS listing of reports from VW Works Security during the March 1979 strike (pages: 14), in: AESP, DEOPS. The other dismissed members of the Convergencia Socialista were Enilson Simoes de Moura, Maria Cristina Salay and Hilda Machado. The Works Security department also handed their files over to the DEOPS.

167

Report by Ademar Rudge to the personnel director of VW do Brasil, September 9, 1974, in: AESP, DEOPS, 50-Z-341-1135 to 1138.

prisoners were freed after 13 months at the end of October 1975. Their remaining sentences were suspended.<sup>165</sup> VW do Brasil did not re-employ them after their release.

Those six employees were not the last Communists to be arrested at VW do Brasil. Ana Maria de Moura Nogueira, who had been a member of the illegal PCB since 1972, had been working as a clerical employee at VW since September 1977. Her activism on behalf of the Trotskyite influenced “Convergencia Socialista” grouping attracted the attention of the DEOPS, who arrested her on August 28, 1978. The surviving records merely indicate that the Personnel department handed over her file to the DEOPS on request. In her case it remains open to question whether the Works Security department had been watching her and assisted in her arrest. Based on the DEOPS’s investigation, criminal proceedings were opened against her in November 1978. She was only spared a trial and lengthy imprisonment thanks to the Amnesty Law enacted with effect from the end of 1978. A detailed report drawn up by the Works Security department for the Political Police during the strike in March 1979 names three other members of the Convergencia Socialista who, in the same year, were dismissed by VW and arrested by the Political Police.<sup>166</sup>

The close collaboration of the Works Security department with the Political Police did not end with the break-up of the Communist Party cell, but was maintained on a continuous basis. When VW Security chief Ademar Rudge reported to the personnel director, the production director, and also the chairman of the management board Wolfgang Sauer, on September 9, 1974 concerning the proceedings at a trade union meeting and the involvement of VW employees, a copy of the report was sent to the Political Police, evidently as a matter of routine.<sup>167</sup> Rudge’s report even informed the board that no VW employees had spoken at the meeting.

This apparently insignificant incident permits a number of broader conclusions to be drawn regarding the operations of the Works Security department and its collaboration with the Political Police. Firstly, Works Security monitored the political and trade union activities of company employees beyond the factory gates. As Rudge in the same report also notified the Personnel department and the personnel director of the military court’s judgement against the five Communist former employees, it is certain that he had advised the board of the arrests two years previously. The management board did not remain unaware of the arrest of six employees.

The Works Security department itself informed the Police of individual cases of criticism against the military regime. When Works Security staff found a handwritten poem mocking the Justice Minister Armando Ribeiro Severo Falcão in the IT materials store in March 1978, the department identified the suspects' names by cross-checking them against the payroll. The not inconsiderable amount of time spent identifying the suspects is astounding: The satirical poem had not been reproduced, and was not intended for public distribution. It had never left the room where it was written.<sup>168</sup>

168

Internal memo from Works Security, March 25, 1978; letter from the Polícia Civil do São Paulo to the DEOPS, March 27, 1978, in: AESP, DEOPS, 50-J-000-5819.

## 7. Pay and working conditions at VW do Brasil in the 1960s and 1970s

The German press had portrayed VW do Brasil as a model of German foreign investment during the 1960s, but from 1973 onwards German journalists began to focus on the problematic aspects of its authoritarian paternalism. When the parliamentary secretary of state in the Federal Ministry for Economic Cooperation arranged to visit the VW plant in February 1973 in the course of a trip to Brazil, chairman of the management board Werner P. Schmidt was expecting negative media coverage even before the delegation arrived.<sup>169</sup>

Schmidt's negative expectations might have had something to do with the composition of the delegation. Parliamentary secretary of state Hans Matthöfer (a member of the SPD party), who was very committed in his support for democratic freedoms and workers' rights in Spain (at the time still a dictatorship) and Latin America, was suspected to have negative preconceptions as to the political and social conditions in Brazil. When Matthöfer, in the course of his factory tour, asked why most of the workers appeared to be so young, an accompanying German guide answered him that older workers were discarded.<sup>170</sup>

Matthöfer's impression was correct. The average age of the plant's workers in 1977 was just 32.<sup>171</sup> There is, however, no evidence that older workers were targeted for dismissal in order to rejuvenate the workforce. The very young workforce by German standards reflected the demographics of Brazilian society, which was significantly younger than in Europe because of the country's high birth rate. The employee fluctuation rate was lower than at Brazil's other auto manufacturers – an indication that the Personnel department employed the tactic of making staff redundant as a means of reducing pay levels less frequently than Ford and General Motors. However, terminating unskilled and semi-skilled workers' employment after less than three years' service was an effective way to avoid upgrading them to a better pay scale.

German quality newspapers had been increasingly critical in their reporting on the investments of German companies in less prosperous countries since the early 1970s.<sup>172</sup> Where previously the convention had been to focus on positive aspects such as the transfer of capital and technology, journalists were now reporting more frequently on negative aspects such as the lower levels of pay and workers' benefits, and the discrepancies in terms of occupational health and safety. VW was not immune to the increasingly critical reporting on the conduct of multinational corporations in Latin America.

On March 20, 1974, a feature in the schools radio programming of broadcaster NDR titled "10 years of military dictatorship: a Brazilian celebration" quoted a claim by Amnesty International that VW do Brasil paid its workers just DM 150 a month.

169

Letter from Schmidt to Leiding, February 26, 1973, in: UVW, 174/576/1.

170

Translation of an article from the daily newspaper "A Folha de São Paulo", February 18, 1973, relating to an interview by its Germany correspondent with Hans Matthöfer, in: *ibid.* In relation to Matthöfer refer to the Werner Abelshäuser, "Nach dem Wirtschaftswunder: Der Gewerkschafter, Politiker und Unternehmer Hans Matthöfer" [After the Economic Miracle: the trade unionist, politician and businessman Hans Matthöfer], Bonn 2009.

171

VW do Brasil, 1977 Annual Report (UVW, 174/1028/18).

172

Elmar Unland, "Die Dritte-Welt-Berichterstattung der Frankfurter Rundschau von 1950 bis 1984: Eine statistische Längsschnittanalyse" [Reporting on the Third World by the Frankfurter Rundschau from 1950 to 1984: a longitudinal statistical analysis], Münster 1984.



173

Letter from Backsmann to Neuffer, July 25, 1974, in: UVW, 1/66/1.

174

Doleschal, "Automobilproduktion" [Automobile production], p. 175, 210 (figures for 1983).

175

According to Brazilian employment law, full-time employees were paid for 240 hours' working time per month, as work-free Sundays were also paid. However, the work-free Sunday payment was voided in case of absence from work, even if not by the fault of the employee (Doleschal, "Automobilproduktion" [Automobile production], p. 175, 210).

176

Doleschal, "Automobilproduktion" [Automobile production], p. 201 (VW do Brasil pay scale, applicable from April 1, 1984). Owing to the unusually high Dollar/Deutschmark exchange rate in 1984, converting to DM amounts would have suggested an excessively high pay level. So, exceptionally here, amounts have not been converted into DM.

177

Ibid., p. 213 (figures for 1983).

Although few adult listeners would probably have heard the programme, VW's head of Public Relations sent a protest letter to NDR director of programmes Martin Neuffer. VW's Public Relations department countered the negative reporting on social issues with the argument that, according to the latest pay scale, a tool-grinder actually earned the equivalent of DM 857 a month – almost six times what had been claimed.<sup>173</sup> The Public Relations department's assertion was correct, but it reflected only part of the truth. Qualified specialists such as tool-grinders were indeed well-paid, but represented only a relatively small minority of the workforce. Nevertheless, by 1979 the average pay across all employees of VW do Brasil was the equivalent of DM 687 – more than four times the Brazilian minimum wage equating to DM 150.

There was a shortage of skilled metalworkers during the period of strong growth in Brazilian industry during the 1960s and 1970s. The highly productive and fast-growing auto manufacturers such as VW do Brasil paid high wages by Brazilian standards, as a means of ensuring the long-term loyalty of qualified staff. While 12% of VW do Brasil's workers were unskilled, and 50% semi-skilled, only 22% of manual workers, or 17% of the total workforce, were qualified, hard-to-replace specialists.<sup>174</sup>

The pay differentials between unskilled, semi-skilled and skilled workers were substantially greater than in Germany. While a labourer on the lowest pay scale 1, level 4, was paid an hourly rate equivalent to just US\$ 0.91, receiving a monthly wage equivalent to US\$ 218 for 240 hour' work,<sup>175</sup> a semi-skilled worker on scale 4 received US\$ 1.40 an hour, or US\$ 337 a month. A qualified specialist on pay scale 7 received the equivalent of US\$ 2.13 an hour, and US\$ 512 a month; a highly qualified specialist on the top pay scale 9 was paid US\$ 2.65 an hour and US\$ 637 a month.<sup>176</sup> While the differential between the lowest and highest pay scales at VW AG in 1983 was 44%, at VW do Brasil it was 191%. Despite the relatively high pay in the auto industry by Brazilian standards, only skilled specialists were paid comparably to European levels. Of the salaried clerical staff, who accounted for some 20% of the total workforce, 72% (corresponding to 14% of the total workforce) were more highly qualified staff on pay scales 8 to 14.<sup>177</sup>

The steadily rising demand for cars also had negative effects on the workers' everyday working lives. Germany's Works Constitution Act stipulates that the Works Council must give its consent to regular overtime working and special shifts. It was only in Autumn 1980, following a hard-fought labour dispute, that elected employee representation, with competencies at least partially comparable to those of a Works Council under German employment law, was introduced at VW do Brasil.

Obligatory overtime was a permanent feature of everyday working life at VW do Brasil during the 1960s and 1970s. On being recruited, staff were asked by the Personnel department whether they would be willing to work overtime. Since a general rejection of overtime working would have resulted in termination during an employee's trial period, however, they had no choice but to agree. One or two hours overtime was not infrequently worked in addition to a standard nine-and-a-half hour day, with a one-hour lunch break. At the high-point of the boom in the Brazilian auto industry in 1974, each worker at VW do Brasil accrued 260 additional working hours a year. As the demand curve flattened, annual overtime hours per worker fell to 175 in 1976, and to 118 in 1978, though in 1980 they again climbed back up to 158.<sup>178</sup> In view of the low overtime rates paid, longer working times were a cost-effective alternative to expanding production capacities.

With an early shift from 6 a.m. to 4.30 p.m. and a late shift from 4.30 p.m. to 2.30 a.m., the plant management was able to run production for 20,5 hours, with just a brief overnight break, so making optimum use of machine capacity.<sup>179</sup> Based on its longer standard working time (9,5 instead of 8 hours) and regular overtime working, the plant in São Bernardo do Campo attained a much higher capacity utilisation level than the VW AG plants in Germany.

Long working days and a high work rate induce fatigue and so increase the risk of high accident rates. This hypothesis can unfortunately not be verified, as no statistics or internal company reports on trends in work accidents at VW do Brasil have survived. As far back as the mid-1960s, trade unionists were complaining of dangerous and unhealthy working conditions at the VW plant in São Bernardo do Campo. At the congress of the International Metalworkers' Federation (IMF), the general secretary of the São Bernardo do Campo metalworkers' union complained of "scandalous health and safety conditions". The great heat and high dust levels meant that many foundry workers suffered from respiratory diseases.<sup>180</sup> In the course of his research into industrial relations in the Brazilian auto industry from the middle to the end of the 1970s, British industrial sociologist John Humphrey heard from interviews with workers about the health-endangering noise in the press plant and the body shop, and about high emissions of carcinogenic and toxic substances such as welding gases, dichloromethane, trichloroethane and phenol.<sup>181</sup>

The especially bad working conditions in the foundry only improved during the 1980s, thanks to better ventilation. In 1981, the VW Foreign Investments department expressed the suspicion that VW do Brasil was not complying with occupational health and safety and emissions laws, and as a result extensive capital investment would be required.<sup>182</sup> When the management agreed to invest in more

178

Ibid., p. 194

(worker figures estimated for 1974).

179

Würtele, "Gewerkschaftsbewegung"

[Trade union movement], pp. 305-311.

180

"Überall Deutschland" [Germany everywhere], in: "Der Spiegel" 51/1969, pp.

54-63. As late as 1981, the chairman of

German metalworkers' union IG-Metall, Eugen

Loderer, sharply criticised working conditions

in the foundry on a visit to the São

Bernardo do Campo plant (Telex from Paulo

Dutra de Castro, Diretora Adjunta Relações

Publicas at VW do Brasil, to VW AG, January

30, 1981, in: UVW, 1184/356/2).

181

Humphrey, "Brazilian Auto Industry",

pp. 85ff.

182

Submission by Geßner for Berthold, August

20, 1981, in: UVW, 1184/361/2.

183

Update planning for VW do Brasil 1981-1983, in: Minutes of the VW AG management board meeting on September 8, 1980 (appendices); minutes of the VW AG management board meeting on August 8, 1983.

184

Minutes of the VW AG management board meeting on March 16, 1976.

185

Werner Würtele/Harald Lobgesang, "Volkswagen in Brasilien – Entwicklungshilfe im besten Sinne?" [Volkswagen in Brazil – Development aid in the best sense?], 1978.

186

*pelegos* (literally: saddlecloths): a synonym in Brazilian-Portuguese for trade unionists who were pro-business, loyal to the government, and uncritical.

powerful extractors and improved noise reduction measures in the press plant in the early 1980s under pressure from the now stronger trade unions, the investment – despite being a comparatively small DM 5 million – had to be postponed until 1983 because of the company's heavy losses and the tight liquidity position.<sup>183</sup> VW do Brasil failed to make any greater investment in humanising its working conditions than it was able to finance from its own resources.

The working conditions at VW do Brasil were not considered as issues by the management board of VW AG or the Group's General Works Council until 1975. It was only in March 1976, on his return from a trip to Brazil, that chairman of the management board Toni Schmücker suggested that a Works Council delegation should visit São Bernardo do Campo.<sup>184</sup> The delegation from the General Works Council, headed by its chairman Siegfried Ehlers (1926-1986), travelled to Brazil in October 1976, and met with the São Bernardo metalworkers' union through the mediation of the International Metalworkers' Federation (IMF). The VW Works Council members heard serious allegations against the management of VW do Brasil from the union chairman: Terminations and recruitment of new replacement staff to cut the wage bill for unskilled and semi-skilled workers; unbearable heat in the foundry; a ban on union information activities on the plant site; and close surveillance of employees by the Works Security department. In view of this severe criticism, the delegation requested to meet with trade union activists within the VW workforce.<sup>185</sup>

The meeting with the trade unionists at the company took an unexpected course. The union representatives at VW do Brasil denied the criticisms by the local union committee, and conveyed the impression to their German colleagues that all was well with the workforce. Up to 1977, the few active trade unionists at VW do Brasil were pro-company (*pelegos*),<sup>186</sup> and largely uncritical of the management. There was no elected and democratically legitimate employee representation which could have provided the General Works Council with reliable information, in the interests of the employees, with regard to conditions at VW do Brasil. Until the election of the first Works Council in October 1980, the only democratically legitimate discussion partner and reliable source of information available to the General Works Council was the São Bernardo do Campo union committee. The VW General Works Council had only two non-company channels of communication on the subject of industrial relations at the Group's largest international subsidiary: through the International Metalworkers' Federation (IMF), and through the IG Metall International Relations department.



## 8. The strikes of 1978, 1979 and 1980

The previously docile metalworkers' union in São Bernardo do Campo became increasingly disputatious from 1977 onwards. The trigger for this increasing militancy was a report in the daily newspaper "Folha de São Paulo" on the manipulation of official inflation figures. Based on a report from the World Bank, the paper disclosed that the government and the state economic research institute, Fundação Getulio Vargas, had published inflation rates for 1973 and 1974 which were much too low.<sup>187</sup> The government's subsequent correction of the inflation rates confirmed that statistics had indeed been manipulated in past years.

The purposely understated inflation rates had a direct impact on pay settlements in Brazilian industry. Since the Ministry of Labour and the labour courts based their decision-making on pay rises on the past year's inflation rate and the expected increase in prices in the current year, the workforce suffered losses in real income in 1973 and 1974 despite the economic boom. In 1977, the trade union economic research institute DIEESE calculated on the basis of this data that the failure to increase pay in line with actual inflation in past years would require and justify a 34% retrospective adjustment. In 1976 and 1977, too, pay rises were only a little above inflation, and were in no way able to compensate for the loss of purchasing power suffered in 1973/74. According to an analysis by Investments Department I of Volkswagen AG, pay rose by 98.8% in the two years, and as such were only just above the 94.6% increase in the cost of living in the São Paulo region.<sup>188</sup>

The São Bernardo do Campo metalworkers' union began mobilising its members to fight for a graduated retrospective adjustment of pay rates. In the elections to the union committee on January 31, 1978, the militant list headed by Luiz Inácio Lula da Silva – who was to become famous throughout Brazil in subsequent years under the name of 'Lula' – obtained a clear majority. The metalworkers' union initiated its campaign for restoration of pay levels (*Campanha da Reposição Salarial*) by entering into dialogue with leading politicians from the governing ARENA party, though the talks quickly came to a halt owing to the government's uncompromising approach. For the annual round of wage adjustments in the Spring of 1978, it demanded that the 15% adjustment already made should not be offset against the new pay settlement to account for rising inflation (1978: 39%).

As expected, the auto industry employers' association was unyielding. In order to impose its demands, the metalworkers' union employed the 'crossed arms' method, whereby the employees turned up at their workplaces but did not start working. In May 1978, a total of 100,000 workers in the greater São Paulo area laid down tools. By transferring the labour dispute inside the plant, they avoided the risk of being attacked and arrested by the police at the factory gates. Although there were four

187

Luis Flavio Rainho/Osvaldo Martines Bargas, "As lutas operarias e sindicais dos metalurgicos em São Bernardo" (1977-1979), São Bernardo do Campo 1983, pp. 29-44.

188

Briefing by VW AG International Investments Department I relating to wage and salary increases at VW do Brasil, June 15, 1979, in: UVW, 1184/355/1.

189

Regarding the 1978 strike see *ibid.*, p. 65-96; cf. Humphrey, "Brazilian Auto Industry", pp. 160-175.

190

The figure of 800 striking workers is contained in a report by the DEOPS, in: AESP, DEOPS, 43-Z-0-4526. A report by the police office covering São Andre, São Bernardo do Campo and Diadema (ABCD) to the DEOPS dated May 17, 1978 estimated the number of strikers at 700. This figure was indirectly confirmed in a report by VW do Brasil to the General Works Council, which had requested information on the consequences of the strike, dated September 28, 1978. UVW, 119/382/2.

191

Report by the ABCD police office to the DEOPS on May 15, 1978 concerning a meeting of the metalworkers' union on May 13, 1978, in: AESP, DEOPS.

VW employees on the local trade union committee, the union organisation at VW do Brasil was still too weak for a widespread strike. The trade union leadership at VW was pro-business, and rejected strike action.<sup>189</sup>

As there had never been a strike at VW since the plant's founding, both the management and the workforce were equally unpractised in strike tactics. With no in-house union support, the striking workers at VW were left to their own devices. The strike began on May 17, 1978 in the tool shop, where 90% of the workers laid down tools.<sup>190</sup> The strike's concentration on the tool shop was no coincidence, as the tool-makers were among the best-paid staff, and were able to stand several days' loss of pay even without a functional strike fund. They were the most politically aware, and had much less fear of being dismissed than the mainly semi-skilled workers in the body shop and in final assembly. During the boom in the Brazilian auto industry in the 1960s and 1970s, tool-makers and other qualified specialist metalworkers were better protected against the consequences of politically motivated dismissal. Their militancy was further intensified by news of a planned shortening of the lunch break and by what was perceived as a disappointingly small special bonus equivalent to just DM 72.50 marking the plant's 25th anniversary.<sup>191</sup>

VW Works Security was much more robust in its response during the strike than the Works Security departments of the other auto plants where strikes were taking place, at Ford, Chrysler, Mercedes and Saab-Scania. As soon as the strike began, the Works Security management mobilised its armed staff to the tool shop, ordering them to stand three metres apart adjacent to the tool-makers' workstations. To prevent communication between the strikers, Works Security disabled the telephone system in the shed. The solid block of guards hindered the tool-makers from communicating among themselves and with their colleagues in the other sheds in order to mobilise strike action. Works Security ordered the tool-makers to leave their workstations and get on buses at the shed exits which would drive them home. Works Security prevented a team from the "Rede Globo" TV channel, who has been notified in advance of the strike by the union and were intending to report on it, from entering the plant.

To intimidate the strikers, Works Security arranged for 28 tool-makers to be dismissed with the consent of the Personnel department. However, the plant management failed in its aim of breaking the will of the striking tool-makers. The tool-makers did not resume work until May 24, after the management had ordered that the dismissed staff be reinstated. For the first time since the start of the military dictatorship, the auto industry employers' association (*Sindicato Nacional da Indústria de Tratores, Caminhões, Automóveis e Veículos Similares* – SINFAVEA)

negotiated with the union on a local industry-specific collective pay agreement with the silent consent of the government. The negotiations with the auto industry association culminated in an 11% increase in real incomes. Although the union had demanded a 15% real increase, it had made a first step in compensating for the pay rises withheld in past years.

Despite the first-time recognition of the union as a legitimate collective pay negotiating partner by the employers' association, in the Summer and Autumn of 1978 the VW management board was still well away from accepting independent trade union representation of workers' interests. Following the Third Congress of São Bernardo do Campo Metalworkers in September 1978, the plant management dismissed 12 of the 20 VW staff who had attended the event. According to multiple reports in the "Journal do Brasil" daily newspaper, the Works Security department continued its established practice of informing the Political Police of suspected trade union and left-wing activists.<sup>192</sup>

Although it was still a criminal offence to organise a strike, the Brazilian police and judicial bodies had refrained from prosecuting the strike leaders. In 1978, the military leadership headed by the country's President General Ernesto Geisel enacted the more moderate powers aimed at a gradual return to the rule of law and unrestricted parliamentary democracy with fully freedom for all political parties. In the political debate concerning the Land's future, the terms 'opening up' (*abertura*) and 'relaxation' (*distensão*) gained predominance over the striving for security based on imposed quietude. A key step on the road to democracy was the Amnesty Law passed by the federal parliament on August 28, 1979, by which the new government of General João Baptista de Oliveira Figueiredo issued an amnesty to politically persecuted opponents of the regime. However, the Law also protected the former military governments, as well as police and military personnel, against criminal prosecution for violations of human rights. It prevented judicial accounting for the political persecution carried out and of the crimes committed against the political opponents of the dictatorship.

The management board of VW do Brasil was passive and cautious in its response to the emerging transformation of the military dictatorship into a parliamentary democracy and the trade unions' demands for partnership in collective pay bargaining, workers' participation and appropriate material sharing in corporate success. In 1978 and 1979 there were as yet no indications of the company gradually moving away from its 'master its own house' attitude and authoritarian paternalism exhibited to date in favour of corporate governance founded on social partnership. In his reports to Toni Schmücker, Sauer was primarily concerned with the social risks of the liberalisation process. During the auto workers' strike in March 1979,

192

Gaspari, "A ditadura acabada",  
Rio de Janeiro 2016, p. 142.



193

Minutes of the management board meeting at VW do Brasil, November 9, 1979, in: UVW, 174/2716/2.

194

Wolfgang Sauer (1930-2013) was a commercial trainee at Bauknecht in Stuttgart from 1947 through to 1950, and from 1950 to 1951 worked in the company's Foreign Trade department. From 1951 to 1954 he headed the Commercial department of Bauknecht's general importer in Portugal, Roberto Cadell. After undergoing in-house training, he was sales manager of Bosch in Caracas from 1955 to 1961, and from 1961 to 1963 he managed the Bosch branch office in Buenos Aires. From 1963 to 1966 he was sales manager – and from 1966 to 1972 managing director – of Robert Bosch in Brazil. He joined the Audi management team in 1972, and with effect from July 1, 1973 he was appointed chairman of the management board of VW do Brasil. Sauer was president of the German-Brazilian Chamber of Commerce from 1974 to 1977 (Information based on the profile of Sauer in the employees' newspaper "Familia", June 1973).

195

Gaspari, "A ditadura acabada", pp. 54ff.

Sauer described the gradual political liberalisation as a potential risk to the country's economic stability and social peace, rather than welcoming it as a long-overdue reform process. Again in November 1979, Sauer was not really optimistic in his assessment of the chances of success of the democratisation process: "It might be that the system – which can be seen as an attempt by a militarily orientated government to adjust to a democracy – will not work."<sup>193</sup> Based on his personal experience of unstable democratic regimes, he expected that Brazil was "facing three or four tough years", and should be ready to deal with "political radicalism".

The management board's persistence in holding to an authoritarian form of corporate governance was not solely a consequence of the political conditions, such as Brazil's employment laws, but also of the chairman's career experience up to that time. The chairman of the management board since 1973, Wolfgang Sauer, had spent most of his career outside Germany.<sup>194</sup> He had no direct experience of the German model of social partnership and institutionalised workers' rights of co-determination. What Sauer had that his predecessors Leiding and Schmidt did not, however, was 10 years' experience of Brazil and a deep-seated knowledge of Brazilian society. Sauer was familiar with the Brazilian culture and mentality, had personal relationships with the administrative and economic elites, and – in contrast to all the former chairmen – spoke fluent Portuguese.

By the time of the next pay dispute in March 1979, the political conditions had altered to the advantage of the unions. With the rescinding of the Emergency Powers Act Number 5 (*Ato Institucional No. 5*) at the end of 1978, the risk of arbitrarily imposed lengthy imprisonment without trial was at an end. Whereas Justice Minister Armando Falcão and the Federal Police had largely banned reporting on the strike in May 1978, during the large-scale strikes from March to May 1979 the Brazilian media were for the most part able to report unhindered on the union and the striking workers, thereby drawing greater public attention to their aims.<sup>195</sup> On October 13, 1978, the Brazilian federal parliament (the Congress) passed a law amending the constitution which rescinded the censorship of radio and television programmes prior to broadcast, marking an organised transition to a more liberal domestic policy. The only exemption from the restored media freedoms was reporting on the military. The new President João Figueiredo (1918-1999) continued the military's hold over the presidency, but – as opposed to his predecessor – did enjoy at least some elements of democratic legitimacy, having been elected by a partially democratic electoral college. The amendment to the constitution on October 13, 1978 made the future President a transitional President. His period of office was extended from five to six years, but was to end with the free election of a civilian President in 1985.

An apparently undramatic decree alleviated the legal ban on strikes dating to 1964 at least in part. A government decree in August 1978 removed the strike ban from the National Security Act and incorporated it into general employment law. While the government did not abolish the threat of criminal prosecution for strike leaders, merely participating in a strike in a non-essential sector such as the auto industry was no longer an offence.<sup>196</sup> The state labour courts did, however, still have the right to declare strikes for higher pay and in pursuit of other demands illegal and to remove elected trade union committee members from office.

The way the strike in May 1978 had gone encouraged the workers at VW do Brasil to again fight for an increase in real incomes the next year. If the view of union strike historians Luis Flavio Rainho and Osvaldo Martines Bargas is to be believed, the mood among the metalworkers prior to the strike on March 13, 1978 was one of euphoria and confidence.<sup>197</sup> The restoration of fundamental human rights and the abolition of media censorship allowed actors in civil society to articulate and communicate their demands openly. The gradual transformation of the dictatorship into a pluralistic state under the rule of law created a setting in which they were able to deal with long-simmering social conflicts openly and publicly. The potential counter-response of the state executive became more calculable and constrained.

The determination of the unionised metalworkers at the auto plants in São Bernardo do Campo was reflected in their strike demands. In addition to a substantial increase in real incomes in order to compensate for the withheld adjustment of wages in past years, the trade union demanded protection against termination of employment for one trade union representative for every 500 employees and a reduction in the weekly working time from 47.5 to 40 hours with retention of full pay. To protect against pay cuts through enforced workforce fluctuation, newly recruited employees were to be paid no less than the staff they replaced.<sup>198</sup> The union demanded a 30% overtime bonus if a company ordered overtime working for more than two days.

The unions regarded the employers' association's offer as unacceptable. Although the employers offered a 54% pay rise for the key pay scales in the auto industry, the rise would have merely offset the inflation rate and not increased real incomes. The employers wanted to offset the pay rise against the recently implemented 11% adjustment for inflation, so a 54% rise less the adjustment for inflation would merely have balanced out the expected inflation rate of 43%.<sup>199</sup>

196

Decreto-Lei dated August 4, 1978 ([http://www.planalto.gov.br/ccivil\\_03/decreto-lei/De1632imprensa.htm](http://www.planalto.gov.br/ccivil_03/decreto-lei/De1632imprensa.htm), accessed June 16, 2017),.

197

Rainho/Bargas, "Metalúrgicos em São Bernardo", p. 112.

198

Demands of the São Bernardo do Campo metalworkers' union in the 1979 wage campaign, in: *ibid.*, pp. 214f.

199

*Ibid.*, pp. 122f.

200

Telex from Sauer to Schmücker, March 20, 1979, in: UVW, 1184/355/2.

201

Rainho/Bargas, "Metalúrgicos em São Bernardo", pp. 126f. Film director Zetas Malzoni made a documentary about the strikes of 1979 and 1980 on behalf of the São Bernardo do Campo and Diadema metalworkers' benevolent and cultural association (Associação Beneficente e Cultural dos Metalúrgicos de São Bernardo do Campo e Diadema) titled "Linha de Montagem" [Assembly line] ([www.youtube.com/watch?v=ILDaknbMtjo](http://www.youtube.com/watch?v=ILDaknbMtjo) and [www.youtube.com/watch?v=Is2LyYjO4nk](http://www.youtube.com/watch?v=Is2LyYjO4nk), accessed July 13, 2017).

202

Report by the "A Folha de São Paulo" daily newspaper, March 22, 1979.

203

DEOPS listing of reports from VW Works Security during the March 1979 strike (pages: 14), in: AESP, DEOPS. Regarding the stationing of Military Police on the VW site see Rainho/Bargas, "Metalúrgicos em São Bernardo", p. 130.

The employers fundamentally rejected the unions' other demands. In response to what they saw as the employers' inadequate offer, 150,000 metalworkers in the cities of São André, São Bernardo do Campo, São Caetano and Diadema went on strike on March 13, 1979.<sup>200</sup> The workers at VW played a special role. As VW was by far the largest employer, and the Works Security department had isolated the striking workers from the rest of the workforce back in May 1978, the almost complete work stoppage at VW symbolised an organisational breakthrough for the trade union movement.

The union activists shifted their action from inside the plant to outside the factory gates, in order to avoid a direct confrontation with Works Security.<sup>201</sup> As Works Security was unable to break through the picket line outside the factory gate by its own force owing to the numerical superiority of the workers, VW became the only company in the region to request the assistance of the Military Police (*Policia Militar*). On March 14, the Military Police moved onto the VW site, setting up quarters in the training workshop for the duration of the strike. The plant management not only allowed the Military Police to occupy its site, but also ordered its canteen staff to cater for them.<sup>202</sup>

To guard against reprisals by the employers, the union activists from VW formed picket lines outside the gates of other plants, while their colleagues from other companies did likewise outside the VW plant. In view of the massive Police presence outside the factory gates, the trade unionists shifted the focus of their activities to the company bus stops. There they were able to persuade numerous colleagues to join the strike initially without threat or hindrance by the Police.

The Military Police's occupation of the plant site with the company's consent was a clear sign of VW's collaboration with the organs of the military regime. Evidence of this survives in the daily incident reports made by the Works Security department to the Political Police.<sup>203</sup> Works Security also reported on purely in-house incidents, and gave the police the personal details of strike activists they had identified. Works Security staff photographed strikers on the picket line for identification purposes, and exchanged the photos with the works security departments of neighbouring auto plants. At the end of the strike, Works Security provided the Political Police with a list of 47 VW employees who had been identified as strike leaders and pickets on the basis of newspaper photographs or statements from informants. The Police arrested 18 of them.

Despite the visible threat posed by Works Security and the Police, the union mobilisation proved successful. On the second day of the strike, 60% to 70% of salaried clerical staff did turn up for work, but only 10% to 15% of the factory floor workers. Production came to a complete stop because of the high absence rate. As VW do Brasil was continuing to increase its production in 1979, and was easily able to sell all the cars it produced, every strike day meant a loss of production and thus the loss of around 2,200 vehicle sales. Although as many as a third of workers went back to their posts from March 16 onwards, production remained largely stopped. The sequential production process meant that the loss of just one link in the chain was enough to prevent effective production.<sup>204</sup>

The company management had escalated the labour dispute by allowing the Military Police to occupy the plant site. The union committee criticised VW's behaviour in strong terms at a meeting attended by tens of thousands of striking workers at the São Bernardo do Campo football stadium. The Works Security department extended its operations to cover the main company bus stops, informing the Police of the pickets gathered at them. Based on this information, the Police arrested a number of pickets at the bus stops and handed them over to the Political Police for interrogation. This handover to the Political Police (DEOPS) remained without consequence for the workers only because the DEOPS, in the face of massive public pressure, had ceased carrying out torture, and detainees could only be held in custody without warrant in exceptional cases.

The VW do Brasil management board was surprised by the Brazilian press's open reporting, which was no longer censored by the government or subjected to the self-censorship of the past. The press reporting framed the Military Police operation in a highly negative light. The Police's actions in obstructing and arresting strikers self-evidently contradicted the government's proclaimed relaxation (*distensão*) of its domestic policy and the new acceptance of political pluralism (*abertura*). The in part shocked, in part outraged responses of the management board indicated that VW do Brasil had underestimated the implications of restored press freedom, and was not prepared for a public confrontation with the union. The chairman of the management board Wolfgang Sauer described the strike movement as "a political demonstration and trial of strength", thereby calling into question the legitimacy of the dispute under employment law.<sup>205</sup> The strike was without doubt exemplary in nature, as the unions were also attempting to impose their right to strike on the government. The issues at the heart of the strike, however, were purely labour-related demands such as higher real incomes and improved working conditions, which Sauer attempted to discredit by labelling them "political".

204

Telex from Sauer to Schmücker, March 20, 1979, in: UVW, 1184/355/2.

205

Letter from Sauer to Schad (Management Personnel department, VW AG), May 28, 1979, in: UVW, 1184/355/2.

206

Arns was Archbishop of São Paulo from 1970 to 1998, and was appointed a Cardinal in 1973. Cláudio Hummes (a Cardinal since 2001) had been Bishop of São André since 1975, and succeeded Arns as Archbishop of São Paulo from 1998 to 2006.

207

Rainho/Bargas, "Metalúrgicos em São Bernardo", p. 130.

208

Ibid., pp. 146f.; cf. the written report by VW do Brasil to VW AG, undated (end of March 1979), in: UVW, 1184/355/2.

209

Ibid., pp. 154f.; cf. UVW, 1184/355/1.

The solidarity exhibited in the São Paulo region was key to the social acceptance of the strike and the striking workers. The Bishop of Santo André, Cláudio Hummes (b. 1934) and the Archbishop of São Paulo, Paulo Evaristo Arns (1921-2016) both expressed solidarity with the workers' demands, and granted strikers fleeing from police actions sanctuary in churches.<sup>206</sup> At the request of the union committee, Bishop Hummes came to the VW factory gate on the morning of March 20th and asked the Military Police to refrain from violent action against pickets.<sup>207</sup> Hummes's attendance at a large-scale strike meeting of 70,000 metalworkers was of particular symbolic importance. Arns and Hummes were adherents of so-called Liberation Theology, and had already previously spoken out against torture and arbitrary arrest and in favour of greater social justice in Brazil. In the strongly Catholic Brazilian society, the expression of political views by the clergy assumed more than just major symbolic importance. It imbued the strikers' demands with a moral and social legitimacy. The Church appealed for donations of money and food for the striking workers' families, handled the distribution of aid, and provided key moral and logistical support in the labour dispute. The public authorities were also not unified in their opposition to the strikers. The Mayor of São Bernardo do Campo Tito Costa publicly expressed solidarity with the trade union, and called on the Police to withdraw from union meetings being held in the city's main square.

The metalworkers' union ended the strike on March 27th, with the declared intent of negotiating an acceptable result in the subsequent 45 days of 'truce'. So as not to weaken its negotiating position, the union called on the workers not to do any overtime during this period. On instruction from the plant management, at least some line foremen pressurised workers not to refuse overtime. The chairman of the auto industry association Mário Garnero assured the union that VW would not dismiss any staff for taking part in the strike. However, this promise by Garnero – whose main job was as legal affairs director on the VW do Brasil management board – failed to convince the union committee of the employers' good intentions.<sup>208</sup> In fact, the VW Personnel department did fail to re-employ some of the dismissed staff.

Shortly before the end of the truce period, following lengthy negotiations, the metalworkers' union and the employers' association reached an agreement which met many of the union's demands. Although the Ministry of Labour had declared a collective pay agreement involving a rise of more than 60% as unacceptable for reasons of political stability, the employers, led by VW management board member Garnero, accepted a 63% pay rise, which was 7% above the inflation rate. While the union also obtained an agreement to retrospectively pay 50% of working time lost during the strike, it failed to impose its other demands.<sup>209</sup>

During the March 1979 strike, the management board of Volkswagen AG for the first time received detailed and continuous information on developments in industrial relations at VW do Brasil. Almost daily telex messages provided Group head office in Wolfsburg with insights into how the dispute was progressing from the perspective of chairman of the management board Wolfgang Sauer. As VW do Brasil had to date always made a positive contribution to the Group's earnings, and its vehicle production was barely able to keep up with demand, the Group board responded with concern to the loss of production.

Wolfgang Sauer provided Group head office with detailed information, but that information was not always complete and correct. His assertion that the employers were offering a pay rise of up to 63%, and the strike was avoidable, purposely hid part of the truth.<sup>210</sup> The employers were offering a 63% rise only for the lowest pay scales, who earned a maximum of three times the very low minimum wage. Most of the semi-skilled workers at VW do Brasil earned more than three times the minimum wage, and with the initially offered 60% rise would have had an increase in real income of just 4%.<sup>211</sup>

Sauer only took back his false assertion that the Military Police had demanded access to the plant site on the orders of the São Paulo state government after critical querying by the Group board.<sup>212</sup> He legitimised the active assistance given to the Military Police with the inaccurate claim that the "reckless and often violent picket lines" had forced him into the decision, and that the union had stirred up the workers against the management. No record remains of Schmücker's response to Sauer's conduct and the false information he gave concerning the Police operation. According to an article in the "Bonner Generalanzeiger" newspaper on June 16, 1979, Schmücker is said to have "furiously read Sauer the riot act",<sup>213</sup> though the truth of the report cannot be verified. By contrast, there is clear evidence that Schmücker put his foot down to end the controversy concerning the appropriateness of the company's media communications strategy. In August 1980, Schmücker defended the criticism of the VW do Brasil management board by the VW Works Council as a legitimate in-house expression of opinion, and rebuked Sauer for his criticism of the policy of open communications in relation to the conflicts at VW do Brasil in clear terms, saying "We were both always agreed that the extreme approach – playing dead – would definitely be entirely wrong."<sup>214</sup>

210

Letter from Sauer to Schad, May 28, 1979, in: UVW, 1184/355/2.

211

Telex from VW do Brasil to Schmücker and Briam, April 27, 1979, in: UVW, 1184/355/2.

212

Memo on the German television broadcaster ZDF's programme "Auslandsjournal" on April 27, 1979, in: UVW, 174/2716/2. VWB management board member Gerber was still holding to this false representation in June 1979 (Telex from Gerber to Adams, Investments Department I, June 26, 1979, in: UVW, 1184/361/2).

213

"Bonner Generalanzeiger", June 16, 1979, in: UVW, 1184/390/3.

214

Telex from Schmücker to Sauer, August 13, 1980, in: UVW, 174/2716/2.

215

Letter from Schmücker to Loderer, May 11, 1979, in: UVW, 1184/355/2.

216

Letter from Loderer to Schmücker, April 30, 1979 in: *ibid.*

217

This was a reference to the democratisation of Brazil.

218

“Der Spiegel”, 16/1979, pp. 23f..

219

Transcript and memo on the German television broadcaster ZDF’s programme “Auslandsjournal” on April 27, 1979, in: UVW, 174/2716/2.

220

Briefing by Dr. Ekkehard Wesner (VW AG Public Relations department) for Anton Konrad (VW AG Public Relations department) and Karl-Heinz Briam (personnel director) on the “Monitor” programme on July 3, 1979, in: UVW, 174/2716/2. It also includes a transcript of the programme.

Sauer had discernible difficulties adapting to the re-emergent political pluralism in Brazil, characterising criticisms by journalists and opposition politicians indiscriminately as “biased” and the results of negative attitudes to multinational corporations. His allegation that union propaganda was characterised by “confused, emotional tirades” could not be dismissed out of hand however. Lula had talked of VW’s management in the same context as National Socialism and the Holocaust, which greatly distressed Sauer.

The previously unsullied relationship of trust between the chairmen of VW AG and of VW do Brasil was damaged by Sauer’s conduct during the strike. Schmücker deemed it necessary to apologise in a letter to IG Metall union chairman and deputy chairman of the VW supervisory board Eugen Loderer (1920-1995) for the fact that “it had been made difficult for our management to exert any influence [on VW do Brasil]” and that Sauer had not received two members of the IGM central committee who had requested a meeting.<sup>215</sup> The VW Group came under pressure from the IG Metall union because “in the recent dispute VW evidently took an extremely harsh approach in its dealings with striking workers”.<sup>216</sup> Loderer informed Schmücker that “the management’s inflexibly harsh response cannot be regarded as prudent in view of recent political developments”.<sup>217</sup> VW do Brasil also faced indirect criticism from Germany’s Chancellor Helmut Schmidt (1918-2015). On his trip to Latin America in April 1979, Schmidt told journalists that German companies in Latin America needed to recognise trade unions as part of a democratic society.<sup>218</sup>

German journalists also made the public in Germany aware of the close collaboration between VW do Brasil and the Military Police. During the strike, VW do Brasil refused access to a film crew from German television broadcaster ZDF’s international politics magazine programme “Auslandsjournal” with the barely credible argument that the journalists’ safety could not be guaranteed because of the pickets.<sup>219</sup> In its edition on July 3, 1979, television broadcaster ARD’s information programme “Monitor” reported critically on the conduct of VW do Brasil during the metalworkers’ strike. The union committee member and VW employee Devanir Riveiro stated in an interview that VW do Brasil had been the only company to have dismissed over 100 strike activists, requested the Military Police to occupy the plant site, and passed on ‘blacklists’ of dismissed employees to other companies.<sup>220</sup>

The Public Relations department characterised the “Monitor” feature as “highly polemic”, prejudiced and lacking in objectivity.<sup>221</sup> In June 1979, Riveiro repeated his allegations at a conference of VW Group employee representatives in Wolfsburg attended by chairman of the management board Toni Schmücker, who by his presence signalled his willingness to engage in open dialogue with the General



Works Council.<sup>222</sup> Schmücker responded to Riveiro's critical questions, but stressed the autonomy and independent responsibility of the corporate management in Brazil and rejected the idea of direct intervention by the Group board. In an open and also controversial one-to-one discussion, personnel director Karl-Heinz Briam (1923-2012) attempted to persuade Riveiro to employ restraint in his communications with journalists, in order to minimise the damage to VW's reputation.

Schmücker was not willing to criticise the situation at VW do Brasil publicly, but he certainly was not reluctant to do so within the company. The Group board decided to send personnel director Karl-Heinz Briam and chairman of the Group's General Works Council Siegfried Ehlers to attend the celebrations marking the five millionth vehicle produced by VW do Brasil.<sup>223</sup> Schmücker's decision not to attend in person could be interpreted by the management board of VW do Brasil as a gesture of critical distancing. By delegating the personnel and labour director, the Group board demonstrated that it was in future intending to pay more attention to industrial relations and work and pay conditions in Brazil. The visit by the former metalworkers' union official Briam and General Works Council chairman Ehlers was intended as a signal of recognition and responsibility to the trade unionists at VW do Brasil.

The schedule for the 15-day trip from October 28 to November 11, 1979 included a visit to Brazilian Minister of Labour Murilo Macedo, at which Briam and Ehlers sought to clarify the legal and political conditions for establishing employee representation.<sup>224</sup> At a meeting with the committee of the São Bernardo do Campo metalworkers' union, Ehlers for the first time established a dialogue between the General Works Council and their Brazilian colleagues. Karl-Heinz Briam prepared thoroughly for his visit to VW do Brasil. The VW AG management board had previously shown little interest in working conditions at VW do Brasil, but on Briam's behalf the VW AG Personnel department requested detailed information on pay, voluntary benefits, training facilities and employee fluctuation.<sup>225</sup>

In a presentation to the management board of VW do Brasil, Briam conveyed his personal impressions and his expectations of a transformation in the corporate culture. Briam argued diplomatically, stressing that it was not feasible to "gauge Brazil, the plant and the company's industrial relations by German standards", and that change in the company could not be enforced as an order from Germany.<sup>226</sup> Since a transformation in the corporate culture could not be enforced by the parent company, Briam appealed to the board's ambitions, encouraging it to engage in change management. He encouraged the board's willingness to establish a freely

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Telex from Anton Konrad to Walter Nori (VW do Brasil Public Relations), July 5, 1979, in: UVW, 174/2716/2.

222

"Der Gewerkschafter" [The trade unionist] 7/1979, pp. 37ff.

223

Plans for the trip to Brazil by Briam and Ehlers, in: UVW, 174/2716/2.

224

According to Briam's report to the VW AG supervisory board meeting on November 12, 1980, in: UVW, 119/451/1.

225

Overview of income and benefits at VW do Brasil, September 27, 1979, in: UVW, 174/2716/2.



226

Minutes of the VW do Brasil management board meeting, November 9, 1979.

227

Memo of a telephone call between Sauer and the VW board, March 31, 1980 (signed off by Schmücker and Briam), in:

UVW, 610/178/2; minutes of the VW AG management board meeting on May 5, 1980, appendices.

228

Mario dos Santos Barbosa, "Sindicalismo em tempos de crise: A experiencia na Volkswagen do Brasil", São Paulo 2003, pp. 108-111. See also "Süddeutsche Zeitung", April 25, 1980: "The labour dispute is turning into a power struggle with the government" and the report in "The Economist", May 17, 1980: "A martyr is born".

elected Works Council with the practical argument that a Works Council would focus attention on in-house concerns, and help to separate corporate issues from general political areas of conflict.

Briam was misled by personnel director Admon Ganem and by Sauer in two not unimportant matters. The collection of trade union membership dues by the companies was not a sign of their recognition, but rather a consequence of the long-standing state control of the unions. Contrary to the denials by Ganem and Sauer, VW do Brasil and other major players in the metal industry maintained 'blacklists' of employees who had been dismissed because of their political activism. Sauer and his colleagues responded to Briam's friendly nudging with verbal assurances, but with little will to implement the suggestions.

The management board of Volkswagen AG did not yet conclude from the 1979 labour dispute that it needed to press VW do Brasil to find a negotiated solution in the next pay round and avoid a lengthier strike as far as possible. The intransigence of VW and the other auto manufacturers also stemmed from the excessively high expectations of the metalworkers' union, which was demanding a 15% increase in real income and a quarterly adjustment of pay rates to inflation. Despite the boom in 1979, VW do Brasil had made only a small profit due to rising inflation and government price controls. As government price controls prohibited offsetting increases in real incomes against vehicle prices, the board categorically rejected an increase in real income of more than 6%.<sup>227</sup>

After the failure of pay negotiations between the employers' association and the metalworkers' union, on April 1, 1980, 250,000 metalworkers in the São Bernardo area went on strike. While the government had learned lessons from the last strike, opting not to deploy the Military Police against pickets, after 17 days of strike it unilaterally intervened in the dispute against the union. The Ministry of Labour declared the strike illegal, and removed the union committee from office pursuant to the still enforced authoritarian employment laws. On April 19, 1980, the Federal Police (*Policia Federal*) even arrested the union chairman Lula and 11 other members of the union's leadership. The arrest of the union leader signalled a conscious escalation of the labour dispute by the government which incited much greater solidarity on the part of the IG Metall union and the VW General Works Council with the Brazilian workers than had been the case as recently as 1979.<sup>228</sup>

The São Paulo state industrial confederation (FIESP) pursued the tactic of forcing the union to its knees by breaking off the negotiations. The deposed union committee chaired by Lula went on hunger strike while in police custody in order to force his

release and the resumption of pay negotiations. The solid strike front began to crumble after four weeks. VW was able to restart the assembly lines for the Beetle and the Brasilia on April 29. In view of the employers' intransigence, after 41 days the general assembly of the metalworkers' union inevitably voted to return to work. The union had no option but to accept the 7% increase in real income decided on by the state labour court.<sup>229</sup> All the union's other demands, such as an employment guarantee for the next 12 months, a quarterly adjustment of pay rates to inflation and the establishment of Works Councils, were rejected by the employers.

The auto industry had not paid so dearly for this success as it first appeared. Since the auto industry was performing well, until the dramatic collapse in sales in Spring 1981, VW initially expected to see the production and sale of 47,000 vehicles lost as a consequence of the labour dispute. Although VW was only able to recover a third of its lost production (16,700 out of 47,000 units) by the year-end, the impact of the strike proved less than first expected. As a result of the tighter financing conditions for new vehicles, VW do Brasil missed its original sales target of 549,000 units by a substantial margin, selling 514,000 units.<sup>230</sup>

The consequences of the strike were manageable for the VW Group as a whole, too, and turned out to be less serious than feared. Owing to the slow sales of the US-built Rabbit (the American version of the Golf), the loss of supplies of Golf engines for the US plant in Westmoreland, Pennsylvania posed little problem. The loss of 100 Passat engines and 600 Passat gearboxes a day for the VW plant in Baunatal likewise did not present the Group with major problems. The stocks in Germany at the time were sufficient to cover a lengthy production outage. Following the resumption of production in Brazil, VW was able to bridge the time gap until the first component deliveries were made by using air freight.<sup>231</sup>

Before the strike began, Sauer had assured Schmücker that VW do Brasil would remain passive in its behaviour during the dispute. While Works Security was not this time deployed against striking workers, the Personnel department dismissed 76 employees in the course of the strike for allegedly taking part in fights and damaging property. These allegations were surprising, since the striking workers had followed the union's instructions to keep off the plant premises and not to place pickets outside the factory gates. There were no reports from the management in São Bernardo that plant property had been damaged, or that violent confrontations had taken place outside the factory gates.<sup>232</sup> A number of personnel files of striking employees indicate that strike activists were dismissed. In those cases, the dismissals were justified not by unlawful acts against VW and its employees, but by protracted absence from work without permission.

229

Minutes of the meeting of the Works Council committee at the VW plant in Wolfsburg on May 14, 1980, in: UVW 119/901. See also the report of International Investments Department I at VW AG, May 9, 1980, in: UVW, 1184/390/1.

230

Report by VWB management board member Gerber at the VW AG management board meeting on September 18, 1980, in: Minutes of the management board meeting on September 18, 1980.

231

Report on the impact of the strike in Brazil, in: Minutes of the VW AG management board meeting on May 5, 1980, appendices.

232

Several members of the Works Council in Wolfsburg questioned the veracity of this information from VW do Brasil at a Works Council meeting on June 11, 1980 (UVW, 119/901). According to an information report by the state intelligence service SNI dated March 28, 1980, the metalworkers' union instructed the workers to stay at home, and not to set up any road blocks (Arquivo Nacional [National archive], SNI, A 0065444). The originally reported figure of 130 dismissed employees was corrected down to 76 following a query to VW do Brasil by the VW Personnel department (Memo by the Personnel department for Briam, undated, in: UUV, 174/2716/2).

233

Suit filed by trade unionists against VW do Brasil, September 2015. The document is in the records of the DEOPS (AESP, DEOPS, 50C737/488 to 50C/37/504).

234

Sauer's report to the VW AG management board meeting on May 5, 1980, in: UUV, minutes of the management board meeting 13/1980.

235

Sauer, "O homem Volkswagen", p. 379.

Like other companies in the auto industry, the VW Works Security department handed over to the Political Police a list of strike activists comprising a total of 66 names.<sup>233</sup> As the list gives precise details of the activists' work duties at the plant, there is no doubt that the information originated from Works Security. This archived document does not, however, reveal whether the participating companies exchanged the names of the strike activists among themselves, or whether the list served as a 'blacklist' (*"lista suja"*) for the identification of employees with politically unwelcome views.

Sauer's appraisal that the metalworkers' union was heavily Communist-influenced, and was being misused for political purposes, was based on crude and false political prejudice.<sup>234</sup> In view of the rising inflation and the economic slow-down resulting from the second oil price crisis, the union's demand for a 15% increase in real incomes was both bold and unrealistic, but was not based on left-wing political radicalisation. Lula and the majority of the union committee were not Marxists, and certainly not supporters of the illegal Communist Party (PCB), which had completely isolated itself politically by its criticism of the strike.

Sauer's allegation that the union was being misused for political purposes ignored the need for reform of employment laws and industrial relations in Brazil. As no democratic workers' party had yet been established since the beginning of the liberalisation of Brazilian domestic policy, the trade union movement had to itself take in hand the establishment of a workers' party (*Partido dos Trabalhadores* – PT) through the already legendary metalworkers' union head Lula. The founding of the PT in 1980 was based on the realisation that workers' rights could only be asserted through a twin strategy of trade union and party-political activism.

The reports on the progress of the strike in April/May 1980 significantly damaged Sauer's reputation among the employee representatives on the VW AG supervisory board. At a Works Council meeting, IG Metall union committee member Albert Schunk criticised Wolfsburg Sauer's general attitude as "very negative", and demanded that the management board exert greater influence over Sauer's conduct. Conversely, in his memoirs published in 2012, Sauer blamed the employee representatives on the supervisory board – and especially the IG Metall union – for the fact that Carl H. Hahn rather than Sauer himself was appointed to succeed Toni Schmücker as chairman of the management board in 1982.<sup>235</sup>

This view is based on a number of assumptions which cannot be verified and are not really plausible. Firstly, it cannot be determined whether the supervisory board ever regarded him as a potential successor to Schmücker at all. Secondly, Sauer had

spent most of his career in Latin America. He was not familiar either with the special characteristics of industrial relations at VW in Germany or with the German and wider European market. While Sauer proved his worth as a crisis manager during the serious downturn in sales on the Brazilian auto market, the management board in Wolfsburg identified deficiencies in the strategic management of VW do Brasil. It should be noted in this context, however, that the economic and political conditions in Brazil changed very much more rapidly and radically than in Germany, and at the beginning of the economic crisis VW do Brasil had to fundamentally revise its production planning four times in just four months.<sup>236</sup> Any medium-term strategic corporate planning had a very short half-life under such circumstances. Sauer impressed his board colleagues and staff at VW do Brasil, as well as his counterparts in the Brazilian government, through his communications skills and charisma,<sup>237</sup> but irritated his colleagues in Wolfsburg with his authoritarian management style.

236

Memo by the Investments department of a telephone conversation with Nitzsche (VW do Brasil), February 9, 1981, in: UVW, 1184/356/2.

237

Author's interview with the former personnel director Jacy Mendonça, March 29, 2017.

9. Change in economic crisis:  
the democratisation of industrial  
relations at VW do Brasil  
in the early 1980s

The gradual transformation in industrial relations took place under increasingly difficult economic conditions. Whereas the management board of VW do Brasil had in fact had considerable financial scope to implement real pay rises in the labour dispute of 1979, by the Spring of 1980 its capacity to make concessions was constrained. From 1980 onwards, VW do Brasil had little possibility of quieting its unhappy workforce by means of pay rises and retrospectively implementing the withheld wage adjustments of the early 1970s.

238

Analysis by the International Investments department of the Brazilian government's economic policy measures 1979/80, June 2, 1980, in: UVW, 1184/390/1.

The reason why VW do Brasil was now under financial constraints was the economic downturn, which was hitting Brazil more severely than Europe and the USA. The Brazilian government and banking system had largely financed the capital-intensive investments of the 1970s through loans from American and European banks. In the 1970s and 1980s, Brazil's energy supplies were mainly based on oil imports, the cost of which rose sharply in 1979 and 1980 as a result of the second oil price crisis following the Islamic revolution in Iran. As a result of Brazil's much worsened terms of trade (the ratio of import to export prices), the balance of payments deficit widened, meaning that the country's foreign debt rose significantly. From 1980 onwards, the servicing of foreign debt (interest and repayments) used up at least 70% of export revenues. This drove Brazil ever deeper into the debt trap.

The Brazilian economy was additionally constrained by the high interest policies of the US and British central banks. The British and US governments under Prime Minister Margaret Thatcher and President Ronald Reagan were combating high inflation with rigid monetarist policies. A major rise in the real interest rate slowed money supply growth and reduced inflation, but had serious consequences for countries with high levels of foreign debt such as Brazil. The interest burden on the Brazilian economy and the rate of rise in indebtedness increased dramatically, forcing the Brazilian government in 1981 to begin implementing a strict stability policy which impaired economic growth.

In 1979, the Brazilian government was forced to start limiting the rise in fuel consumption through higher taxes on car owners. The luxury tax on purchasing a car was increased from 24% to 30%, and the one-off registration fee for a new car rose from 3% to 7%.<sup>238</sup> To cut the growth in credit, banks were allowed to finance the purchase of a car for only 18 months instead of 24, and from 1980 onwards even for as little as 12 months. Since most VW buyers were middle-class, and reliant on partial credit finance, VW do Brasil's car sales fell in 1980 for the first time in its history, from 525,000 units to 514,000. Customers were even more unsettled by the dramatically increasing petrol prices, which made running a car much more

239

Telex from Sauer to Schmücker, April 27, 1981, in: UVW, 174/2716/1.

240

Analysis of the income statement by VW AG financial director Thomée at the management board meeting on May 5, 1980, in: Minutes of the management board meeting on May 5, 1980. While vehicle prices were increased by 46.9% in 1979, material costs rose by 50.5% and personnel costs by 62%, and the inflation rate increased to 56%.

241

Update planning for VW do Brasil for 1981 to 1983, in: Minutes of the VW AG management board meeting on September 8, 1981, appendices. The interest rate on export credits in 1980 and 1981 was 38% – 34% and 29% respectively below inflation.

242

Report by VWB management board member Gerber at the VW AG management board meeting on September 18, 1980, in: Minutes of the management board meeting on September 18, 1980.

243

Update planning for VW do Brasil for 1981 to 1983, in: Minutes of the VW AG management board meeting on September 8, 1981, appendices.

244

Employee representation at VW do Brasil S/A, September 10, 1980, in: UVW, records of the Works Council.

expensive. The government-set petrol price increased more than seven times over in the period from 1979 to 1981, rising from 9.60 Cruzeiros (equivalent to DM 0.78) to 66 Cruzeiros (DM 1.79) per litre. Even taking into account the high inflation rates of 110% (1980) and 95.2% (1981), real petrol prices after allowing for inflation rose 68% in just two years.<sup>239</sup>

In the heavily regulated Brazilian economy, cars were also subject to government price controls, which were tightened in 1979 under the impact of rising inflation. As the auto industry could only pass on its rising costs resulting from higher material prices, wages and levels of depreciation to a limited extent, from 1978 onwards VW made losses on its normal business operations.<sup>240</sup> In 1978 and 1979, substantial net interest income from tax credits, supplier credits and government export financing credits cancelled out the losses on normal business operations, enabling a small surplus to be generated.<sup>241</sup> VW do Brasil was increasingly losing money as inflation doubled from 1979 (56%) to 1980 (110%). Bureaucratic review procedures meant that government approval to adjust vehicle prices lagged several months behind increases in material prices and the workforce's quarterly inflation-adjusted pay rises.<sup>242</sup> In 1980, VW do Brasil was able to increase its vehicle prices on the domestic market by 92%, while inflation climbed to 110%. The abolition of price controls in December 1980 – long yearned-for and demanded by the auto industry – came just as the dramatic recession was beginning, and too late to improve company earnings.<sup>243</sup>

While VW do Brasil for the first time made a loss from its normal business operations on the domestic market in 1980, exports of complete vehicles and CKD kits made a substantial profit. Positive factors influencing this were the government's high levels of export subsidy (26%) and the absence of price controls on export markets. Since the government-controlled devaluation of the Brazilian Cruzeiro (1980: 56.6%) was not keeping pace with the inflation rate (1980: 110%), VW do Brasil was, however, coming under increasing cost pressures on international markets.

The management board of VW do Brasil took Briam's recommendation to establish a Works Council to heart. Although the metalworkers' union had initially failed in its demand for Works Councils, VW do Brasil did not give up on the idea of establishing a Works Council following the end of the strike in April 1980. By early September 1980, VW do Brasil had drawn up its own Works Council constitution. It was thus the first Brazilian company to enable employee representation without the imposition of a statutory Works Council constitution act.<sup>244</sup>

Although the participation rights of the Works Councils lagged well behind the employee rights enshrined in the German Works Constitution Act, union-favouring VW personnel director Karl-Heinz Briam welcomed the “democratic experiment” as a step towards a standard of employee participation in keeping with the developments in industrial democracy in Brazil.<sup>245</sup> His strategy of persuading the VW do Brasil management board of the benefits of institutionalised employee representation through friendly but persistent encouragement had brought a first positive result. The employee representation body was granted rights to be heard and make proposals on the core business matters of working times, work duration and conditions at the workplace. While it would be allowed rights of appeal in disciplinary matters, it was refused any right of co-determination in relation to recruitment and termination of employment.

The IG Metall union in Germany, however, regarded the parity of union-organised and non-union employees in the constitution of the employee representation body as a failing.<sup>246</sup> As the representatives of the two groups were elected through separate lists, and union organisation of the workforce was already widespread, the election rules resulted in permanent under-representation of union members. The passive right to vote was restricted to employees with at least five years’ uninterrupted service, meaning that workers who had been dismissed for political reasons and subsequently reinstated were excluded from standing as candidates. IG Metall expressed solidarity with the metalworkers’ union in São Bernardo do Campo, which rejected the Works Council constitution for the reasons stated.

Reflecting its fundamental criticism of the constitution, prior to the Works Council elections in December 1980 the metalworkers’ union called for employees to spoil their ballot papers. The very high voter participation of 91% at the main plant in São Bernardo do Campo demonstrated that Brazilian workers regarded the establishment of a Works Council as a significant advance. Of the almost 32,000 votes cast, however, only 45.4% were valid; 12% submitted blank ballots. 20% of votes cast were invalid because they gave two votes to union members and none to non-union employees, contrary to the election rules. 23% of voters followed the union’s call to write “João Ferrador” [João the smith] on their ballots as a protest against the election rules: João Ferrador was a popular cartoon figure created by a committed metalworker who appeared regularly in the trade union newspaper “Tribuna Metalúrgica”.<sup>247</sup> The metalworkers’ unions at the new plant in Taubaté (with 4,700 works entitled to vote) and the old branch plant in São Paulo (3,000 voters) did not call for protests against the election rules. With comparably high participation rates of 87% and 89% respectively, 82% and 87% respectively of the employees submitted valid votes.

245

Briam’s report to the VW AG supervisory board meeting on November 13, 1980, in: UVW, 119/451/1.

246

Telex from Albert Schunk (IG Metall committee) to Briam, September 16, 1980, in: UVW, 119/451/1. See also the criticism by the IG Metall representatives on the VW AG supervisory board at the supervisory board meeting on November 13, 1980, and also the letter from Albert Schunk (IG Metall committee) to the General Works Council chairman Ehlers, November 6, 1980, in: *ibid.*

247

Telex from S. Rebhan (VW do Brasil Personnel) to Ehlers, December 9, 1980, in: UVW, 119/451/1.



248

Report by Briam on his trip to Brazil, in: Minutes of the management board meeting on February 8, 1982; Sauer's comments during the management board meeting on November 22, 1982; Briam's report to the management board meeting on August 8, 1983.

249

Sauer's report to the VW AG management board meeting on May 5, 1980.

250

"Der Spiegel" 16/1979, pp. 23f.

By establishing an employee representation body, VW do Brasil took a first step towards a democratic corporate culture. However, the democratic legitimacy of the new Works Council was impaired by the management's insistence on two separate candidate lists. Consequently, the Group management board in Wolfsburg had partially failed in its aim of creating a functional communications channel between the management of VW do Brasil, the workforce and the union. In the course of 1981, Sauer was forced to acknowledge that he could not weaken the union by the Works Council election procedure, and had to find a *modus vivendi* with the union which was acceptable for both sides. Briam was able to persuade him to abandon the fixed parity of union and non-union candidates and recognise the metalworkers' union as an official collective bargaining partner.<sup>248</sup>

Behind the scenes, Karl-Heinz Briam was pursuing his efforts to bring about a gradual democratisation of the corporate culture. The Catholic Church in Brazil played a key role as a dialogue partner and mediator between the trade unions and the companies.

Through its determined commitment to the preservation of human rights and its public protests against arbitrary arrests and torture, the Catholic clergy had further enhanced its social standing during the military dictatorship. Its engagement on behalf of landless settlers who were denied rights, and its not only charitable but also political support to the striking workers, imbued the Catholic Church with a high degree of legitimacy as an advocate for the social interests of the people.

Although the Catholic Church offered itself as a mediator between the company and the unions, dialogue between VW do Brasil and the clergy was blocked by some major issues in their relations. Wolfgang Sauer sharply criticised Archbishop Arns and Bishop Hummes for what he regarded as their bias in favour of the striking workers, and accused the Church of stirring up the political climate "in a militant way".<sup>249</sup> Bishop Hummes occasionally employed Marxist terminology in his public statements, which elicited highly negative responses from the inveterate anti-Socialist Sauer. Sauer was not the only senior VW executive to be perplexed by the Marxist influences in Hummes's social and political views however. The Social Democrat Briam shared Sauer's mystification, as did German Chancellor Helmut Schmidt, who – after a meeting with Hummes – said he had been reminded of the Young Socialist movement within his own SPD party.<sup>250</sup>

In addition to the obvious conflict of economic interests between Sauer and the Catholic Church, the relationship was also strained by personal grievances. The practising Catholic Sauer took the Bishops' public criticism of the company

management's conduct very personally. The question remains unanswered as to whether Archbishop Arns purposely ignored a personal letter from Sauer, and refused Sauer's invitation to tour the plant with the categorical assertion that he did not wish to betray the workers' cause (*Causa Operária - CO*).<sup>251</sup>

Since VW do Brasil and Archbishop Arns were unable to engage in dialogue on their own initiative because of the hardened fronts between them, the Volkswagen AG management board had to initiate the dialogue with the Brazilian clergy. Briam recognised that VW do Brasil's relationship with the Catholic Church was key to the company's standing among the Brazilian public, and it was vital to improve it. The VW AG management board did assure VW do Brasil that it would not go over its head to negotiate with church and union representatives in Brazil.<sup>252</sup> In view of the breakdown in dialogue with the Catholic clergy, however, the management board of VW do Brasil raised no objections to an initiative from Wolfsburg. The decisive push for dialogue with the Catholic Church in Brazil came from the chairman of Germany's Confederation of Catholic Business Leaders, who in October 1980 arranged a confidential meeting of the management board with Arns and the chairman of the Brazilian Bishops' Conference Ivo Lorscheiter (1927-2007).<sup>253</sup> The Confederation of Catholic Business Leaders and VW were pursuing the same aims: searching for a way to ease the tensions in Brazilian society and establish a cooperative relationship between German companies, the Church and the trade unions.

On behalf of the management board, Briam and Otto Adams (head of International Investments Department I) took the opportunity to hold a lengthy meeting with a delegation of Brazilian Bishops at the Colégio Pio Brasileiro in the course of a trip to Rome on October 11, 1980.<sup>254</sup> No records remain of that meeting, so justifiable supposition must be relied upon. As the meeting was also attended by several members of the Confederation of Catholic Business Leaders and representatives of Catholic charities, it is likely that Briam and the Brazilian Bishops discussed the special circumstances at VW do Brasil only on its margins. It can be assumed that discussions pertained to general matters of cooperation between business and the Church, and mutual respect between capital and labour. The parties were able to engage in intensive and in-depth dialogue, particularly since no translation between German and Portuguese was necessary: Arns and Lorscheiter were the descendants of German immigrants, and had both spoken German at home during their childhoods. The meeting delivered a positive outcome from VW AG's perspective. In the Winter of 1980/81, Sauer began to engage in constructive dialogue with Archbishop Arns and Bishop Hummes which gradually built up a relationship of trust.<sup>255</sup> Sauer showed himself willing to learn, and promised them that the police would no longer be called to the plant in the event of labour disputes.<sup>256</sup>

251

Sauer, "O homem Volkswagen", p. 390. There is some doubt about this depiction, as Sauer's own statements, and the reports from his colleagues and staff quoted in his book, are often inaccurate in terms of timing and in a number of important cases incorrect.

252

Letter from Frerk (VW AG) to Sauer, September 18, 1980, in: UVW, 1184/57/1.

253

Telex from Cornelius Fetsch (managing director of the textile company Canda International in Essen) to Schmücker, September 22, 1980, in: UVW, 1184/57/1.

254

Telex from Johannes Steller (chief executive of the Confederation of Catholic Business Leaders) to Briam, October 9, 1980, in: UVW, 1184/325/1.

255

Letter from Adams (Investments Department I) to Sauer, January 12, 1981, in: UVW, 1184/356/3.

256

Verbal report by Briam on his trip to Brazil, in: Minutes of the management board meeting on February 8, 1982.

257

Minutes of the VW AG management board meetings on March 14, May 30, June 27 and August 8, 1983.

The slowly emerging downturn in the Brazilian auto industry turned into a serious recession at the beginning of 1981. VW do Brasil's sales fell by 40% in just a few months. The main cause was the sharp tightening of monetary policy, by which the Brazilian government was seeking to – and had to – slow the dramatic rise in inflation and foreign debt. When the second oil price crisis hit during 1979, the Brazilian Minister of Planning and the government's economic policy chief Delfim Netto initially went on the offensive, attempting to stimulate economic growth through an expansive monetary policy. Netto's economic policy was certainly not as unorthodox as it might seem from the perspective of neo-classical hegemonic stability theory. German Finance Minister Hans Matthöfer opted to adopt the same approach.

The economic base conditions in Germany and Brazil were very different however. While Germany was – and remained – a model of price stability, Brazil faced the threat of sliding into hyperinflation. Germany's trade surplus based on its export strength meant that it did not have to worry about balance of payments issues, but it was suffering from a fall in purchasing power and more expensive capital investment due to imported inflation and rising real interest rates. While the German economy gradually slipped into recession with a slight contraction in economic output by 1982, after a further year of high growth (1980: 9.2%) Brazil slumped into a three-year deep recession, during which the country's gross domestic product (GDP) fell by 7.4% overall from 1981 to 1983.

As an end to the recession came into sight during 1982, Brazil was confronted by the Mexican debt crisis, entailing an international chain reaction and a deterioration in its debt problem. Fearing that international credit lines might be cancelled, in the Autumn of 1982 Brazil was forced to request the International Monetary Fund (IMF) for billions in loans. The stringent stability conditions imposed by the IMF forced the Brazilian government to implement a rigid stability policy, with substantial spending cuts, limits on inflation-adjusted pay rises, the abolition of price controls, and adherence to a high real interest rate. As producers of consumer goods, VW do Brasil and VW AG naturally took a negative view of the IMF's conditions.<sup>257</sup> Along with concerns about declines in sales, there were worries of social unrest in Brazil, which were to be proved justified when a general strike was called. The negative impact of the IMF's conditions on the economy soon became apparent: In 1983 there was a double dip, which saw economic output decline by 3.5%.

In view of Brazil's sharply increasing foreign debt, and its declining credit-worthiness abroad, the Brazilian government had no choice but to reduce credit demand by strict rationing of loans, thereby pushing growth in money supply well

below the inflation rate.<sup>258</sup> The approval of the credit interest rate with effect from the end of 1980 led to a dramatic rise in real interest rates to as high as 40%. As 70% of VW buyers financed their cars by loans, demand for cars dropped dramatically in January 1981. In Spring 1981, VW do Brasil held stockpiles of 42,000 cars – a normal month's production in the time before the crisis. VW do Brasil's production in 1981 fell by 42.4%, while its domestic sales even declined by 44.7%.<sup>259</sup> The dramatic decline in sales came at a time when VW do Brasil believed itself to be well equipped for the future. In Autumn 1980, the company launched the VW Gol, an in-house development which was intended as the successor to the Beetle.

The Brazilian auto industry had been developing an autonomous national strategy in the battle against dependency on oil and high oil prices since the mid-1970s. With the encouragement and financial support of the government, the car manufacturers began developing ethanol-powered engines running on Brazil's prime agricultural raw material, sugar cane. By 1980, the sugar cane and oil industries had established a comprehensive production and distribution network for ethanol/alcohol from sugar cane.

VW do Brasil succeeded in developing ethanol engines through to production maturity just in time before the second oil price crisis hit. In Autumn 1980, 74% of the company's new vehicle deliveries featured ethanol engines, at prices identical to the petrol-powered models.<sup>260</sup> However, reports of possible ethanol supply bottlenecks during 1981 significantly unsettled potential buyers. The percentage of ethanol-powered cars from new production fell as low as 7% at one time in the Summer of 1981, climbing back up to over 70% by the year-end. As VW do Brasil had to adjust its engine production to major fluctuations in demand, Sauer even requested Planning Minister Netto to set government-controlled production figures for ethanol engines, which would have created greater calculability for the manufacturers.<sup>261</sup>

VW do Brasil fell into a serious earnings crisis at a time when it needed to make extensive capital investment in new machinery and new products. While VW do Brasil has been able to get by with comparatively low levels of investment in the golden years up to 1978, the need for high investment coincided with a loss of self-financing capacity. On his first visit to VW do Brasil in March 1982, new VW chairman Carl H. Hahn gained the impression that VW do Brasil had failed to invest in cost-cutting production methods for its cash-cow, the Beetle.<sup>262</sup> It pointed out as disadvantageous the fact that VW do Brasil was not yet able to produce a state-of-the-art water-cooled engine for the new Gol. The first Gol model featured the old air-cooled 1.3 litre petrol engine from the Beetle, which was sharply criticised in the

258

At an inflation rate of 24% (per quarter!), credit volumes were only allowed to rise by 5% (Telex from Sauer to Schmücker, April 27, 1981, in: UVW, 174/2716/1). The government wanted to push growth in money supply down to 50%, with an expected inflation rate of 80% (Report by International Investments Department I on the economic situation in Brazil, May 14, 1981, in: UVW, 1184/356/1).

259

VW do Brasil 1981 Annual Report.

260

Response of the Investments department to the article in "Der Spiegel" titled "Viel zuwenig" [Much too little] (issue 10/1981, 2.3.1981), undated (March 1981), in: UVW, 1184/356/2.

261

Letter from Sauer to Netto, December 8, 1980, in: UVW, 1184/356/1.

262

Memo by Carl Hahn concerning a consultation at VW do Brasil, March 17, 1982, in: Minutes of the VW AG management board meeting on March 29, 1982.

263

Submission by Geßner for Berthold,  
August 20, 1981, in: UVW, 1184/361/2.

264

Sauer's report to the VW AG management board meeting on September 18, 1980.

265

VW do Brasil 1981 Annual Report.

266

Minutes of the VW AG management board meeting on September 20, 1982.

267

Minutes of the VW AG management board meeting on September 8, 1981.

268

Report by VW finance director Thomée to the management board meeting on June 10, 1981.

269

Analysis of 1982 results, in: Minutes of the management board meeting on June 27, 1983.

Brazilian press for its low power and disproportionately high fuel consumption. A few months after launch, VW do Brasil replaced the 1.3 litre petrol engine by a more powerful 1.6 litre petrol engine and a 1.3 litre ethanol engine. Because of the significant conversion cost, the Gol – which was actually intended as a future cash-cow – incurred heavy losses in its first year, producing a negative return on sales of 12% to 17%.<sup>263</sup> A similar problem was posed by the VW Transporter (Type 2), which in 1981 was available only with a thirsty petrol engine, and did not yet have an ethanol-engined variant.<sup>264</sup> As the government prohibited the fitting of diesel engines in light commercial vehicles in line with its energy policy, retrofitting the German-developed diesel engine was not an alternative.

For the first time since its founding, VW do Brasil was sliding into potentially hazardous debt because of the sharp decline in sales and the extremely high interest rates. While the company's liabilities to banks at the end of 1980 totalling 7,739 million Cruzeiros (DM 236.6 million) could still be deemed reasonable, by the end of 1981 they had reached the equivalent of DM 473.2 million.<sup>265</sup> More hazardous was the heavy loss of 18,469 million Cruzeiros (DM 333.5 million), which substantially reduced liquidity and also cut the shareholders' equity. Based on German accounting standards, the loss was even equivalent to DM 452 million.<sup>266</sup> For the first time in the history of VW do Brasil, fixed assets exceeded shareholders' equity – a sign that the business was undercapitalised.<sup>267</sup> In November 1981, VW AG and the two minority shareholders – the Brazilian Monteiro group and the state of Kuwait, holding 10% each – had to inject US\$ 100 million of equity, among other reasons in order to reduce the high cost of borrowings at an interest rate of 11% (per month!).<sup>268</sup>

The small profit made the following year, 1982, stopped VW do Brasil from eating up any more equity, but brought no major relief from the high finance costs. The small rise in production was not sufficient to cut the overhead cost per vehicle and achieve cost-effective utilisation of capacities at the three plants in São Bernardo do Campo, Taubaté and São Paulo.<sup>269</sup>

The dramatic collapse in sales since Autumn 1980 was to place a heavy strain on the tentative emerging dialogue between the management and the union. As a result of severe over-capacity in production and the essential need to reduce variable costs, in the Spring VW do Brasil made 8,500 people – a fifth of its total workforce – redundant. For the employees, these mass redundancies had dramatic consequences which went beyond the loss of a job and the impending termination of unemployment insurance.<sup>270</sup> They received just one month's pay from the state-administered Redundancy Guarantee Fund (Fundo de Garantia do Tempo de

Serviço - FGTS) for every year of service at VW. As there was no adequate state health insurance scheme at the time, on losing their employer's health insurance they also lost their insurance cover in case of sickness. Compensatory benefit schemes covering mass redundancies were a rarity in Brazilian industry, and there was no provision for any such entitlement under Brazil's employment laws.

The dramatic wave of redundancies by the auto manufacturers and their component suppliers saw the unemployment rate in the São Bernardo do Campo region rise to 13%.<sup>271</sup> Concerned about social unrest and a potential resultant political uprising, the management board of VW do Brasil was keen to avoid further mass redundancies as far as possible. The potential alternative of short-time working was doomed to failure because of the lack of a state employment guarantee fund and restrictive employment laws. In view of the dramatic 40% decline in sales, the maximum permissible 25% reduction in working time was not sufficient to adjust work capacity to demand. Since the state Redundancy Guarantee Fund did not provide assistance to workers on short-time working schemes, the workers on the lower pay scales were threatened with major cuts to their real incomes.

Nevertheless, the management board proposed to the employee representation body and the metalworkers' union a plan for short-time working and a bar on further redundancies. While the pro-employer majority on the employee representation body agreed to the short-time working plan, the union insisted on a job guarantee. In the mass vote on the short-time working plan, 70% of the employees at the main plant in São Bernardo do Campo followed the union's recommendation and categorically rejected short-time working. The union's rejection was based primarily on a lack of trust in VW's promise to extend the bar on redundancies beyond the three-month term of the agreement.<sup>272</sup> The change in course by the management board was still too fresh, and as yet too tentative, for trust in it to have built up on the part of the union and the workforce.

The situation took an unexpected turn on April 27, 1981 when the Brazilian legal affairs director Mario Garnero resigned in protest at a planned additional 2,000 redundancies and made the reasons for his resignation public in the Brazilian press. Garnero, who was also chairman of the Brazilian auto industry association (*Associação Nacional dos Fabricantes de Veículo Automotores* – ANFAVEA), regarded further mass redundancies as "wrong and inappropriate" for Brazilian society, and rejected them because of their negative impact on the economic policy of the Figueiredo government.<sup>273</sup> In his position as chairman of the auto industry association, Garnero had a conflict of interests with his loyalty to VW. Whereas VW do Brasil was seeking to use all legal means to adjust its personnel costs to

270

Telex from Sauer to Schmücker, April 27, 1981. Parts of this telex were leaked to "Spiegel" magazine, and so made public ("Linha Dura", in: "Der Spiegel" 28/1981, pp. 62f.).

271

Letter from Forjaria São Bernardo S.A. to Gerber (VW AG, International Investments), August 27, 1981, in: UVW, 1184/361/2.

272

Santos Barbosa, "Sindicalismo em tempo de crise", pp. 112f.; also UVW, 174/2716/1.

273

Letter concerning redundancies from Garnero to Sauer, April 27, 1981, in: UVW, 174/2716/1 (in the Portuguese original: "inoportuna e inadequada"). See also his memoirs, "Jogo Duro", São Paulo 1988, pp. 137-141, and his interview in "A Folha do São Paulo", July 20, 1981 (excerpts from which were quoted in a telegram from VW do Brasil to Anton Konrad of the VW AG Public Relations department, July 20, 1981, in: UVW, 174/2716/1).

274

Press statement by Garnero on his resignation, undated (April 27, 1981), in: UVW, 174/2716/1. Sauer believed that Garnero had selfish political motives for his action, in that he was looking to be appointed Industry Minister following an expected victory for the opposition MDB party in the upcoming parliamentary elections (Letter from Sauer to Schmücker, May 11, 1981, in: UVW, 1184/356/1).

275

UVW, 174/2716/1; "Linha Dura", in: "Der Spiegel" 28/1981, pp. 62f.

276

Telex from Sauer to Schmücker, August 19, 1981, in: UVW, 174/2716/1.

277

Telex from Walter Nori (VW do Brasil head of Public Relations) to Anton Konrad (VW AG head of Public Relations), July 28, 1981, in: UVW, 174/2716/1.

278

"O Estado do São Paulo", July 23, 1981, in: *ibid.* Original text: "(...) sinceramente gostaríamos de encontrar uma solução que evitasse a medida extrema da demissão e (...) sempre estivemos e continuamos abertos a sugestões."

279

Telex from VW do Brasil to the VW AG International Production department, August 3, 1981, in: UVW, 1184/361/2.

280

Minutes of the VW AG management board meeting on September 8, 1981.

281

Minutes of the VW AG management board meeting on June 10, 1981.

falling revenues, the association's interest was in reaching a consensus with the government. Moreover, Garnero predicted that additional mass redundancies would cause considerable damage to the image of foreign companies such as VW.<sup>274</sup> Garnero was to be proved right in that prediction. Brazil's President Figueiredo summoned Sauer to meet with him, and criticised the redundancies at VW on television. In view of the high profits it had made in the past, he asserted, VW should remember its obligations to Brazil in bad times too.<sup>275</sup>

The VW do Brasil management board had to take the President's criticism seriously. This *moral suasion* concealed substantial potential for the government to exert pressure, extending from price controls, through import licensing, to export subsidies. At the urging of the Governor of São Paulo state, the four biggest auto manufacturers undertook not to make any more mass redundancies, initially until November 1981. In return, despite tight budgets, the Brazilian federal government promised to continue subsidising exports.<sup>276</sup>

At the same time, there were signs of a cautious thawing of relations between the VW do Brasil management board and the metalworkers' union. It did not escape the attention of VW do Brasil's head of Public Relations that Lula, at a gathering outside the VW factory gates in July 1981, acknowledged the difficult situation in which the auto industry found itself and moderated his formerly radical rhetoric.<sup>277</sup> Around the same time, in an article on VW the daily newspaper "O Estado do São Paulo" published the contents of an in-house memo which the company had evidently leaked purposely to the press. In it, VW do Brasil stated that it was open to suggestions for ways to avoid redundancies, and that it regarded redundancies only as a last resort.<sup>278</sup> This was the Public Relations department's response to a speech by Lula at a demonstration reporting that VW was planning 7,000 redundancies.

By this time, the board had agreed on a benefits package for employees taking voluntary redundancy. On July 31, 1981, the management made the workforce an offer of three months' pay for employees taking voluntary redundancy in addition to their statutory severance payment. Anyone taking up the offer would retain their entitlement to company medical care for themselves and their families through to the end of the year, and would be able to shop in the company's Cooperativa store until August 15, 1982.<sup>279</sup> This offer was also agreed by the union, and was greeted positively by the employees. In August 1981 alone, 3,350 workers took voluntary redundancy.<sup>280</sup> This enabled VW do Brasil to completely eliminate its workforce surplus of 4,300 staff (as per June 1981) by the year-end, and during the slight economic recovery in 1982 was able to re-employ 2,500 of the workers who had left.<sup>281</sup>





10. VW do Brasil as a major  
land-owner, and the social and  
ecological consequences:  
the Rio Cristalino project

At the high-point of the boom in the Brazilian auto industry in the early 1970s, VW do Brasil faced the challenge of having to re-invest the non-transferable portion of its profits in Brazil. Since VW do Brasil was already financing its capital investments from retained earnings, re-investment in the business could not resolve the luxury problem of the appropriation of profits.

The strategy of acquiring component suppliers was contradictory to the corporate principles of VW AG, and would also have been barely feasible on the Brazilian market. Many of VW do Brasil's suppliers, such as Bosch and Krupp, were themselves subsidiaries of German companies, and would certainly not have been open to acquisition. Consequently, VW do Brasil invested a portion of its non-transferable surplus in shares of 100 Brazilian companies in a wide variety of different sectors. As VW do Brasil was only able to acquire holdings of a few percent, these investments provided it with no influence on the management of ongoing business operations or on the strategic development of the companies concerned.<sup>282</sup>

VW do Brasil therefore looked for investment opportunities through which it could have control over developments. One such opportunity arose in September 1973 when the state development corporation Codespar offered a 58,000 hectare ranch (*fazenda*) in the south-east of Pará state in the Santana da Araguaia district at a price of 28 million Cruzeiros (DM 11 million), with the option of expanding the estate to 241,000 hectares through the additional purchase of two adjoining parcels of undeveloped land.<sup>283</sup> As part of its highly ambitious development programme for the under-developed north and north-east of Brazil, the government and the state agency for the development of the Amazon region (*Superintendencia do Desenvolvimento da Amazonia* – SUDAM) were seeking investors with major capital resources to invest in large-scale agricultural projects. To that end, in August 1973 Planning Minister Reis Velloso invited chairman of the management board Wolfgang Sauer to join a trip to the northern region for potential major investors.

The Planning Ministry tried to attract investors with an offer to allow financing of the additional land purchases and a major portion of the total investment from non-transferable tax refunds.<sup>284</sup> The management board expected a purchase price of 56 million Cruzeiros (DM 22.2 million) for the land and an additional investment cost of 270 million Cruzeiros (DM 106.6 million) to transform the largely undeveloped forest area into a gigantic *fazenda* three times the size of Hamburg. On full development, VW expected to be able to keep between 150,000 and 200,000 beef cattle on the land.

282

Briefing by VW AG Investments Department I, May 26, 1981, in: UVW, 1184/361/2. The recently published book by Antoine Acker, "Volkswagen in the Amazon: The tragedy of global development in Modern Brazil", Cambridge 2017, is fundamental to any study of the history of the Rio Cristalino project.

283

Telex from Sauer to Leiding, September 26, 1973, in: UVW, 174/577/1.

284

Submission by VW do Brasil for the VW AG management board secretariat, September 24, 1973, in: UVW, 174/577/1; report by International Investments Department I, May 26, 1981, in: UVW, 1184/361/2.

285

Press statement by Wolfgang Sauer, April 1983, in: UVW, 368/193/1. Concerning his subsequent interpretation of the project see Sauer, "O homem Volkswagen", pp. 342-353.

286

Telex from Sauer to Leiding, September 26, 1973, in: UVW, 174/577/1.

287

Letter from Sauer to Leiding, July 16, 1973, in: UVW, 174/577/1.

288

Minutes of the management board meeting on October 5, 1973.

289

UVW, 174/2716/1.

Despite the gigantic scale of the estate and the Group's total lack of experience with agricultural projects in tropical regions, the management boards of VW do Brasil and Volkswagen AG saw it as a highly advantageous way of investing profits based on the associated tax breaks. As the Brazilian government charged advance payments on as yet untaxed income, the tax refunds were also a tax-free source of financing for capital investments. At the time, VW do Brasil was forecasting long-term high profits, resulting in high tax bills, so the opportunity to finance investment from untaxed income was attractive. Contrary to the justification strategy subsequently employed by chairman of the management board Wolfgang Sauer, social considerations played no role in the investment decision.<sup>285</sup>

Alongside the tax advantages, there was also a political reason to invest in land in the under-developed north of Brazil. The chairman of the management board of VW do Brasil also persuaded his colleague Leiding with the indication that the Planning Minister had hinted at the prospect of "substantial and exceptional goodwill" on the part of the government towards VW do Brasil if it made the investment.<sup>286</sup> Sauer believed that VW do Brasil should curry favour with the government by helping it to "attain its economic policy aims (...) in order to resolve the country's social problems".<sup>287</sup> The aims of the military government included not only consistent high rates of growth in industrial production and employment, but also the agricultural development of the savannah forests and tropical jungles in northern Brazil. The development of the Amazon region and the savannah to the south, including the colonisation of those territories by family farms and fazendas, was also an agricultural policy aimed at compensating for a failure to undertake land reforms which would have turned rural workers and settlers into the legal owners of unused estates, thereby resolving the agricultural problem as a social problem. The military coup had been carried out, not least, in order to oust the Goulart government because of its land reform plans, and as such had consolidated the convergence of interests between the military and agricultural elites.

On October 5, 1973, the VW AG management board approved the land purchase in northern Brazil, overriding the concerns of personnel director Peter Frerk.<sup>288</sup> In June 1974, VW do Brasil submitted its investment plan to the SUDAM, which granted its approval in December 1974.<sup>289</sup> In its decision to make the purchase, the management board relied entirely on the recommendations of VW do Brasil and on a consultant's survey – not explained in detail – which affirmed the profitability of the purchased land. Neither VW AG nor its Brazilian subsidiary had any agriculturally sound and commercially costed plan at the time the purchase was made indicating whether and how the ambitious and gigantic undertaking could be realised.

It is unlikely that the decision-makers in Wolfsburg and São Bernardo do Campo were aware of the failure of a large-scale investment by Ford in the Amazon. During the Second World War, the Ford corporation had acquired a massive area of land for the plantation of rubber trees, establishing on it a worker' settlement which it named Fordlandia. The Fordlandia project failed because the cleared jungle floor quickly became infertile, and the yields from the plantation fell well below expectations because of the poor fertility of the soil and rapidly spreading crop diseases.

VW do Brasil was entering entirely new country in establishing the fazenda, and was not able to rely upon assured empirical data based on experience. The management nevertheless considered the investment in the future fazenda of Rio Cristalino to be free of risk. The clearing of trees and seeding of grass to feed beef herds were long-practised cultivation techniques among Brazilian fazenda owners. There is, however, some evidence that the management board of VW do Brasil significantly underestimated the development and cultivation costs and the cost of processing and marketing the beef. For example, the board had not initially calculated the extreme remoteness of the location in the thinly populated south of Pará state into its investment plan. The fazenda was 800 kilometres away from the nearest major cities and selling markets in Belem and Brasilia. Lacking any infrastructure for slaughtering and processing beef cattle, VW do Brasil was forced to take a 22% share-holding in slaughterhouse and cold-store operator Frigorifico Atlas S.A.<sup>290</sup> The company, established by the Hamburg-based Heinrich Plambeck corporation, constructed a slaughterhouse with annual capacity for 150,000 beef cattle 70 kilometres away from the fazenda in the newly created town of Campo Alegre.

At the start of the project, VW do Brasil significantly reduced the scale of the planned fazenda. The land acquired in 1974 totalled 140,000 hectares rather than 241,000, and was intended to feed 110,000 beef cattle. The government had stipulated that half of the land had to be left in its original natural state. Accordingly, VW was able to clear 70,000 hectares – an area the size of Hamburg. The 1977 VW do Brasil Annual Report stated that, on completion of clearing in 1987, the new pastures would feed 110,000 beef cattle, meaning approximately 1.5 animals per hectare.<sup>291</sup> The clearing of forest and seeding of grass for pasture took longer than planned however. In 1978, four years after the start of the project, only 20,000 hectares of pasture had been developed for beef cattle grazing. By then, VW do Brasil had invested at least DM 22 million and an estimated DM 37 million.<sup>292</sup>

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By 1981 VW do Brasil had had to increase its share-holding to 27.8% (UVVW, 1184/356/1).

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VW do Brasil 1977 Annual Report.

292

This is a minimum amount, calculated on the basis of the Cruzeiro exchange rate at the end of 1978. As the investment was spread over a period of four years, and the Cruzeiro lost 64% of its value against the Dollar during that time, the cost in Deutschmarks was about two thirds (DM 15 million) higher (figures based on the brochure: "VW in Brasilien" [VW in Brazil], 1979).

293

Internal information on Rio Cristalino, as per April 30, 1982, in: UVW, 174/1028/22.

294

Memo of a meeting with members of the VW do Brasil management board in Wolfsburg, May 21, 1979, in: UVW, 1184/355/2.

295

Ariane Barth, "Aufbruch zur letzten Grenze" [Heading towards the final frontier], in: "Der Spiegel" 42/1983, pp. 230-247.

296

Concerning the natural history aspect of the project see Antoine Acker, "O maior incendio do planeta: Como a Volkswagen e o regime militar brasileiro acidentalmente ajudaram a transformar a Amazonia em uma arena politica global", in: Revista Brasileira de Historia 34 (2014), pp. 13-33; idem, "'The brand that knows our land': Volkswagen's 'Brazilianization' in the 'Economic Miracle'", 1968-1973, in: "Monde(s)" 2014/1, pp. 197-218.

297

Letter from Dr. R. Binsack (GTZ) to Alwin Dierkers (VW do Brasil), August 20, 1979; letter from Brügger to the GTZ, September 24, 1979, in: UVW, 1184/389/2.

When purchasing the land, the VW do Brasil management had relied on its ability to exploit the statutory provisions in full and to clear half the land (70,000 hectares) and turn it into pasture. As part of the land was hilly and unsuitable for pasture, VW was forced to reduce the planned pasture area from 70,000 hectares to 53,700.<sup>293</sup> The prediction that one steer would need 0.66 hectares of pasture also proved overly optimistic. Because of the four-month dry season in Winter, the grass grew more slowly and was less nutrient-rich than expected. From 1979 onwards, a pasture requirement of one hectare per steer proved realistic. This reduced the realistic cattle capacity of the fazenda from 110,000 to 54,000. Such a major change to the fundamental parameters altered expectations as to the fazenda's profitability very substantially.<sup>294</sup> As the number of cattle had reached only 40,000 by 1983, VW do Brasil could not expect to start returning a profit until the early 1990s.<sup>295</sup>

The management board of VW do Brasil and its consultants had appraised the geographical, climatic and ecological factors far too optimistically. The basic parameters for the long-term profitability of the fazenda changed to become negative. The estate manager, Swiss doctor of tropical agriculture Andreas Brügger, placed his hopes in the scientific optimisation of cattle farming. Though the traditional Brazilian Nelore beef cattle were robust, adapted to the tropical climate and needed little care, they were also inefficient processors of feed, with a low meat yield. Through a joint project launched in 1979 with the University of Veterinary Medicine Hannover, Brügger hoped to breed a European/Brazilian hybrid which would produce more meat while retaining the same adaptability to tropical conditions. His failed hope was based on the scientifically optimistic assumption that such a breed was viable. Yet even if he had been successful, the multi-generational proliferation of an entirely new breed of beef cattle would have taken a very long time.<sup>296</sup>

The management of the fazenda only gradually became aware of the ecological problems and the limits on sustainable pasturing. Following a visit by a consultant from the German government development agency GTZ in April 1979, Brügger was forced to admit that "our pasture management is still far from being optimal. We are going to need many years' more experience."<sup>297</sup> Yet even after the introduction of a computer-controlled pasture management system, he still predicted one steer per hectare as the maximum sustainable capacity of the land. Excessively intensive pasturing posed a risk of soil erosion, and thus the permanent destruction of the ground, without knowledge of the limits of pasturing.

It was the ambition of the VW do Brasil management board to construct a model settlement in the centre of the fazenda for its 300 permanent workers. The

development agency SUDAM also regarded the Rio Cristalino fazenda as a model estate which was to serve as an example to other investors.<sup>298</sup> The solidly built houses for the estate workers and their families were connected to the power grid and water supply system, and so better equipped than on other fazendas. The settlement's communal facilities included a primary school for the first to fourth grades, a food cooperative, a community hall with a stage, and a medical centre. It thus offered a much better social infrastructure than many rural workers' settlements in the poor north of Brazil. As the price for their good living conditions and the exemplary infrastructure, the workers had to accept a high degree of social control by the estate management. A critical and thoroughly researched article in the magazine "Movimento" reported in 1978 that the head of estate security routine placed the workers under surveillance, and strictly enforced the alcohol ban for estate workers imposed by VW. The settlement community and the relatively small number of workers allowed estate manager Brügger to implement the typical VW do Brasil model of authoritarian paternalism in an ideal way. That authoritarian paternalism was symbolised in the fazenda's school, which was named after company chairman Wolfgang Sauer and had a picture of him hung on the wall.

As opposed to other farm workers, the workers on the Rio Cristalino estate were employed on a permanent basis, and paid all year round. Little information is available about the working conditions of the permanent estate workers, as the Catholic Rural Pastoral Commission (*Commissao Pastoral da Terra – CPT*) was primarily concerned with assuring humanitarian working conditions for the non-permanent itinerant workers. A report by the regional employment office and the agricultural workers' trade union in September 1984 stated that the fazenda offered good working conditions for its regular staff.<sup>299</sup> However, the workers were also exposed to serious, but avoidable, healthy risks because the estate management used defoliant containing the highly toxic dioxin-containing agent 2,4,5-T (also known as "Agent Orange") in its clearing operations. There are unfortunately no surviving reports concerning the extent to which fire was employed for clearing in order to destroy as much as 6,000 hectares of forest every year. The fazenda burned the waste wood in the on-site power generator, and a sawmill processed usable wood into planks, so the small amount of lumber produced was largely recycled.<sup>300</sup> However, the non-recyclable forest vegetation was still being burned even when the harm to the climate caused by clearing by fire was already generally known.

The biggest social failing of the fazenda was the treatment of the non-permanent estate workers who were engaged to carry out clearing operations. There are only sporadic reports as to the average numbers of non-permanent itinerant workers on the fazenda. Press reports based on reports from the agricultural workers'

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According to the article by Brazilian journalist Sergio Buarque on the Rio Cristalino fazenda in: "Movimento", June 26, 1978.

299

Suit filed by the Delegacia Regional de Trabalho no Pará and the agricultural workers' trade union against the Rio Cristalino fazenda, September 26, 1984, in: Arquivo Nacional Brasilia, Serviço Nacional de Informacoes (SNI), K0048446. Reports on the working conditions of the permanent estate staff and itinerant workers also appeared in "Spiegel" magazine issue 42/1983, the "Frankfurter Rundschau" and the "Times" on May 10, 1983.

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According to the VW do Brasil 1981 Annual Report.

301  
UVW, 368/193/1.

302  
According to the detailed statements of itinerant workers in “Brasilien-Nachrichten” 84/1984. The itinerant workers’ statements were collated and publicised by Father Ricardo Rezende from the Catholic Rural Pastoral Commission.

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Quotation from the report: “A situação encontrada na Vale do Rio Cristalino é um retrato de todas as outras fazendas existentes na região, onde o trabalhador humilde e analfabeto é uma presa fácil para os empreiteiros, muitas das vezes com a complacência dos próprios donos das fazendas.” (Translation: The situation on the Vale do Rio Cristalino fazenda replicates conditions on the other fazendas in the region, where the poor and illiterate workers are easy prey for the recruitment agents, often with the indulgence of the fazenda’s true masters), in: Suit filed by the Delegacia Regional de Trabalho no Pará and the agricultural workers’ trade union against the Rio Cristalino fazenda, September 26, 1984, in: Arquivo Nacional Brasília, Serviço Nacional de Informações (SNI), K0048446.

trade union and the Catholic Rural Pastoral Commission talk of approximately 600 itinerant workers during the early 1980s.<sup>301</sup> To recruit staff, the fazendas employed private agencies, who were officially termed *empreiteiros* (contractors) but colloquially were referred to as *gatos* (cats). The *gatos* mainly recruited unskilled, often illiterate, workers who were forced to take on any work, however badly paid, in order to survive in the poverty-stricken north of Brazil. In the very thinly populated rural areas, landless workers mostly had no alternative other than to live as itinerant workers. Most of them had neither a tax reference number nor a work book, which were obligatory in order to obtain regular employment. The hopeless social situation of the unskilled rural workers allowed the *gatos* and their commissioning estate owners to dictate the workers’ pay and working conditions. In fact, the itinerant workers did not even receive boots or work clothing from the *gatos*. While the living conditions of the permanent fazenda workers were good, the itinerant workers were housed only in poorly roofed wooden sheds with no sanitary facilities. As the VW fazenda accepted no responsibility for housing or feeding the itinerant workers, they had no alternative but to buy their food at overpriced rates from the *gatos*.

The working conditions of the itinerant worker were heavily dominated by violence. The *gatos* were armed, and often enforced the fulfillment of work contracts through the deployment of armed guards (*pistoleiros*). If itinerant workers sought to leave the estate because of their low pay and unreasonable working conditions, they were forced back to work by the *pistoleiros* at gunpoint, or were tied to trees after trying to escape. Among the preferred victims of the *gatos* were indebted itinerant workers, whose debts they took on. As little money remained from their wages to pay off the debts after deducting the price of their food, indebted itinerant workers were effectively forced into long-term indentured servitude. German news services covering Latin America such as “Brasilien-Nachrichten” condemned these working conditions as a form of slavery.<sup>302</sup> While the condemnation of the living conditions of rural workers accurately portrayed the social repression and exploitation involved, the metaphorical use of the term ‘slavery’ did not reflect the reality. Indebted rural workers were entirely dependent on the *gatos* economically and under employment law, but they were neither their property nor their serfs.

According to a report by the Pará state employment office, the treatment of the itinerant workers on the fazenda Rio Cristalino did not differ from the working conditions on other fazendas.<sup>303</sup> The employment office thus affirmed the complaints of the Catholic Rural Pastoral Commission concerning the exploitation of the itinerant workers, which in 1983 were made public in Brazil through reports in the Brazilian daily newspapers “O Globo” and “Journal de Tarde”, and also

reached German readers via the AFP news agency and the “Frankfurter Rundschau” newspaper.<sup>304</sup> Father Ricardo Rezende visited Germany in October 1985, and gave a critical audience at a conference hosted by “Brasilien-Nachrichten” in Freiburg a first-hand report on conditions in northern Brazil in a presentation titled “Mitverantwortung ausländischer Unternehmen – Sklaverei auf der VW-Farm?” [Shared responsibility of foreign companies – Slavery on the VW estate?].

The management of the VW fazenda was doubtless familiar with the conditions on the rural labour market, and knew of the exploitation being practised by the *gatos*. By engaging the *gatos* as intermediaries, the fazenda management cut its administrative and labour costs at the expense of the itinerant workers. The management regarded, and treated, the itinerant workers as second-class workers. They failed to provide them with appropriate accommodation, sanitary facilities, or medical care, and even prevented them from shopping in the fazenda’s own food store. They even deducted part of their wages if they made mistakes in their work or were negligent when removing toxic crops.<sup>305</sup> Instead of treating the itinerant workers fairly, they aided and abetted the *gatos*.

The management of the fazenda and VW do Brasil – if not directly, then indirectly – shared responsibility for the inhumane working and living conditions of the itinerant workers. As the clearing operations ran for a long period of time, and the itinerant workers were not merely engaged on a short-term basis, the fazenda could have employed them itself, establishing a model of best practice. Since 1983, German news magazines and national newspapers such as “Der Spiegel” and “Frankfurter Rundschau” had been accusing VW of employing “slave labour”, although the term was not really accurate. Even if the itinerant workers were not really slaves, and VW do Brasil was not directly responsible for their appalling working conditions, VW did nothing to alleviate their situation.

As environmental awareness grew in Germany and globally, there was increasing public interest in the large-scale deforestation of the Amazon. In February 1984, an article in “Geo” magazine mentioned the VW fazenda as an example of the destruction of tropical jungles. In a paper intended for school course-work titled “Brasilien, Herausforderung an die Kirche” [Brazil – challenge to the church], Catholic charity Misereor reported not only human rights violations and social repression but also – based on the example of the Rio Cristalino fazenda – on the destruction of the jungle. Media reports on clearance operations on the VW fazenda induced prominent animal film-maker and zoo director Bernhard Grzimek to write a letter to the VW board in Wolfsburg expressing his concern in October 1979.<sup>306</sup> VW AG assured Grzimek that the company was aware of the ecological consequences, and

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Overview of reporting by the Brazilian press in a fax from VW do Brasil to VW AG, undated (May 1983), in: UVW, 368/193/1. The São Bernardo do Campo metalworkers’ union newspaper *Tribuna Metalurgica* disclosed the situation to the VW workforce in its May/June 1983 issue.

305

Sergio Buarque, “A capitania da Volkswagen”, in: “Movimento”, June 26, 1978.

306

Letter from Grzimek to VW AG, October 12, 1979, in: UVW, 1184/390/3; letter from VW AG to Grzimek, October 23, 1979, in: UVW, 174/2716/2.



307

VW do Brasil, “Cristalino: Eine Rinderfarm im Neuen Viehzuchtgebiet” [Cristalino: a cattle ranch in the new breeding territory], Wolfsburg 1983.

308

This was also reported in “Der Spiegel” no. 46/1986, pp. 209-212.

309

Sauer/Prange, “Weitere Maßnahmen zur Sanierung der VWB” [Further measures to turn-around VWB], January 21, 1986, in: UVW, 1184/64/1.

310

Memo by chairman of the management board Carl Hahn on a meeting with the management board of VW do Brasil on March 17, 1982, in: Minutes of the management board meeting on March 29, 1982.

was countering the risk of soil erosion by seeding grass. No ecological masterplan to mitigate the negative consequences for the plant and animal world existed at the time however. Ultimately, it was only the in parts hilly terrain which prevented VW do Brasil from attaining the high legal maximum and clearing 50% of the land. To counter the increasing public criticism, in 1980 VW do Brasil published a detailed brochure – in Portuguese, with elaborate images – about Rio Cristalino. In view of the increasing criticism in the German media, too, in January 1983 VW AG also arranged for a German version of the brochure to be printed, and produced a film which it loaned free of charge to schools and other educational establishments.<sup>307</sup>

VW do Brasil decided to sell the Rio Cristalino fazenda in 1986, and found a buyer in 1987. However, the negative reporting by the German and Brazilian press on the social conditions of the itinerant workers and the ecological consequences of deforestation were only secondary considerations in the decision.<sup>308</sup> VW do Brasil had been making losses since 1980, so the original purpose of the fazenda as a tax-saving model was no longer relevant. As long as VW do Brasil was not making profits, it could not invest any untaxed income in the fazenda.

A study by the VW do Brasil management board in January 1986 came to the conclusion that “satisfactory earnings from cattle and lumber trading are not to be expected because of the top-heavy administration”, and adjudged that the break-even point was a long way off. The fazenda needed a short-term capital injection of US\$ 4.5 million, which VW do Brasil could not afford because of the difficult earnings situation in the auto business and urgently required investment in plant modernisation.<sup>309</sup> VW do Brasil thus abandoned its comparatively optimistic forecast made in 1982 that capital investment of just US\$ 2.8 million would be necessary until break-even.<sup>310</sup> Contrary to Sauer’s claim in his autobiography “O homem Volkswagen” [The Volkswagen man], VW do Brasil did not abandon the project because of supposed threats of a boycott, but because of ongoing losses.



# 11. Franz Stangl: a concentration camp commandant as an employee of VW do Brasil

The report by the Brazilian National Truth Commission investigating crimes during the military dictatorship seized upon the confirmed fact that VW do Brasil had employed Franz Paul Stangl (1908-1971), the former commandant of the Nazi death camp at Treblinka, until his arrest by the Brazilian police in 1967. The claim in the report that Stangl was an official of the Works Security department responsible for installing and maintaining security and surveillance systems<sup>311</sup> has – after thorough investigation – proved to be false.

How was it possible for a Nazi war criminal who had been a wanted man since 1961 to enter Brazil under his true name and find work at VW do Brasil? Born in Upper Austria, Stangl began his career as a weaver in the textile industry, passing his master tradesman's exam at the unusually young age of 18.<sup>312</sup> Owing to the high levels of dust pollution in the weaving shed, and his fear of contracting lung disease, in 1931 he joined the police force in Linz. Stangl earned merit during the suppression of the Socialist uprising in February 1934 and, following the murder of Austria's Chancellor Dollfuß by Austrian Nazis, he uncovered one of the organisation's weapons caches. In Autumn 1934 he was rewarded for his loyalty to the authoritarian Austrian corporative state by being promoted to the Criminal Investigation Department, and in 1935 he was reassigned to the political section of the CID in Wels, Upper Austria.

In view of his proven loyalty to the corporative state, his police career would under normal circumstances have been ended following the 'Anschluss' which saw Austria united with Germany. However, Stangl succeeded in concealing his tracks, posing as a supposedly illegal NSDAP (Nazi party) member. Here, and in many other situations in later life, the opportunist Stangl showed his ability to adapt quickly to new challenges, and take his career down new routes. With the incorporation of the political section of the CID into the Gestapo (the secret state police) in 1939, Stangl gained the status of a Gestapo officer, and after the merger of the Gestapo with the SS security service he was appointed as a member of the SS to the Reich Main Security Office (Reichssicherheitshauptamt; RSHA).

Stangl's transition to a Nazi 'Schreibtischtäter' [criminal bureaucrat] began in November 1940 when the RSHA transferred him to the "Gemeinnützige Stiftung für Anstaltspflege", supposedly a "charitable foundation for institutional care", but in reality a cover organisation for the mass murder of the sick and disabled who were incapable of working (the so-called operation T4). Through to March 1942, Stangl was responsible as office manager for administering the selection and murder process at the Hartheim sanatorium in Upper Austria, and for a time also at the Bernburg sanatorium in Saxony-Anhalt. Stangl's duties included issuing the death

311

Comissão Nacional da Verdade, Relatório, Vol. II, Brasília 2014, p. 67. The trade union complainants against VW do Brasil made the same claim based on a different source.

312

Concerning Stangl's career see Gitta Sereny, "Into That Darkness: From Mercy Killing to Mass Murder" (1974). British journalist Gitta Sereny conducted lengthy interviews with Stangl in April and June 1971 following his sentencing to life in prison. She added to the impressions and information gained by also interviewing his wife Theresa, who had stayed in Brazil.

313

Concerning Stangl's post as commandant of the Sobibor and Treblinka death camps see Sara Berger, "Experten der Vernichtung: Das T4-Reinhard-Netzwerk in den Lagern Belzec, Sobibor und Treblinka" [Experts in destruction: The T4 Reinhard network at the Belzec, Sobibor and Treblinka camps], Hamburg 2013 and Yitshak Arad, "Belzec, Sobibor, Treblinka" The Operation Reinhard death camps", Bloomington 1999. 34,000 Dutch and 16,000 German, Austrian and Czech Jews were also murdered in Sobibor. Almost 19,000 Jews from the Reich territory and the Protectorate of Bohemia and Moravia were deported to Treblinka on 11 trains (Alfred Gottwaldt/Diana Schulle, "Die 'Jugenddeportationen' aus dem Deutschen Reich 1941-1945" [The deportations of Jews from the German Reich 1941-1945], Wiesbaden 2005).

314

Arad, "Operation Reinhard", p. 168.

315

Sereny, "Into That Darkness: From Mercy Killing to Mass Murder", pp. 141f.

316

Judgement of the Düsseldorf Regional Court against Franz Stangl, December 22, 1970 (Düsseldorf Regional Court file reference 8 Ks 1/69).

certificates, by which the truth of mass killing by carbon monoxide emissions from engines in gas chambers was concealed from the families of the murdered patients.

After the mass killing of the sick was abandoned, based on their experience of organised mass murder by poison gas Stangl and a number of his subordinates were transferred by the SS to eastern Poland, where – as part of "Operation Reinhard" – they took part in the murder of more than one million Polish Jews from the ghettos of eastern Poland and Warsaw at the Belzec, Sobibor and Treblinka death camps.<sup>313</sup> Stangl's superiors in the SS found him to be a highly efficient organiser. He directed the expansion of the Sobibor camp, organising the murder of 100,000 people in just two months. During his time as commandant of the Treblinka death camp from September 1942 until the camp uprising on August 17, 1943, Stangl was responsible for the deaths of more than 700,000 Jewish deportees. According to the statements of the accused SS officers at the 1964/65 Treblinka trial in Düsseldorf, Stangl acted more like a coordinator, allowing his subordinates extensive freedom in their murderous work. Nevertheless, Stangl bore decisive responsibility for the reorganisation of the death camp, transforming it from a chaotic slaughterhouse into an efficient killing factory, murdering more than 10,000 Jews a day in its gas chambers. SS leader and commander of "Operation Reinhard", Odilo Globocnik, described Stangl as his best camp commandant.<sup>314</sup> One of the few survivors of Sobibor reported that Stangl did not always act like a remote bureaucrat who did not mistreat and kill his victims himself. When one of the deportation trains arrived, Stangl would shoot prisoners with a pistol, hitting and possibly killing some of them.<sup>315</sup>

As most of the deportees were driven directly from the trains into the Gas chambers, only the small number of Jewish labourers ("Arbeitsjuden") had a slight chance of surviving. Although Stangl frequently wore a distinctive white jacket instead of the black SS uniform, he remained virtually invisible to the prisoners.<sup>316</sup> Stangl showed himself only occasionally at the prisoner roll-calls and the inspections of the work squads, and after the war had no need to worry that a former prisoner might recognise him. Shortly after the end of the war, Stangl was captured by the US Army, and as a member of the SS was imprisoned at the Glasenbach internment camp in Austria until Spring 1947. The US occupying powers handed him over to the Austrian judicial system, which had begun investigating the euthanasia murders at the Hartheim sanatorium and was also investigating Stangl.

Threatened with trial, on April 30, 1948 Stangl escaped from a remand centre in Linz and fled to Rome, where the pro-Nazi Bishop Alois Hudal (1885-1963) provided him with a Red Cross pass and money for his onward journey. Hudal procured a

visa for him to enter Syria, and even arranged a job for him at a weaving mill in Damascus. A year after escaping, Stangl brought his wife and three daughters to join him.

With his Red Cross pass and the Austrian passports of his wife and daughters, the Stangl family emigrated to Brazil in 1951, and settled in São Bernardo do Campo. Stangl reached Latin America by the same route (the so-called “Rattenlinie”, or rat line) as other high-ranking functionaries of the Nazi regime and internationally wanted war criminals such as Adolf Eichmann and Josef Mengele had done. Because the Austrian courts had only been looking for him since 1961, he was able to enter Brazil under his true name and settle there at no risk.

In Brazil, Stangl profited from his ability to adapt inconspicuously to new surroundings. Stangl did not seek out the company of other former Nazis, who gathered to celebrate Hitler’s birthday for example. He quickly learnt Portuguese, and soon found work as a weaver with a textile company thanks to his experience and an additional course of technical training. Franz Stangl benefited from the rising demand in Brazilian industry for skilled staff with technical qualifications. Through his wife, he came into contact with a neighbour of German descent who was head of plant maintenance at VW do Brasil. Franz Stangl was employed by the company as a mechanic in October 1959, under his true names and with his Austrian papers. Until his arrest on February 28, 1967, he rose to become a group leader in the plant’s preventive maintenance section.<sup>317</sup> His middle and youngest daughters found work at VW do Brasil as secretaries.

Franz Stangl lived in Brazil under his true identity. He had even registered himself and his family with the Austrian consulate in 1954. When his two older daughters married, Franz Stangl obtained copies of his children’s birth certificates and his own marriage certificate through the consulate. Stangl’s record in Austria was still unblemished at the time. It was only in 1961 that the Austrian police again placed him on a wanted-list for the murders in Hartheim. Although Austria’s embassies and consulates routinely received copies of the list, the consular officials in São Paulo failed to cross-check the names on it against the register of Austrians living there. This failing is all the more astounding as Latin America had become infamous as a refuge for Nazi war criminals since the kidnapping of Adolf Eichmann from Argentina in May 1960, if not before.

Stangl had been known to the Austrian public since 1964. When the guards from the Treblinka death camp went on trial in Düsseldorf, an Austrian newspaper reported that the camp commandant Stangl was on the run, and was wanted by

317

Letter from Schultz-Wenk to Dr. H. Krüger (VW AG Legal Affairs department), March 31, 1967, in: UVW, 1053/105/1; questioning of Franz Stangl by the state prosecutor’s office on June 27, 1967, in: Archive of the state of North Rhine-Westphalia, main state archive in Duisburg, inventory Ger. Rep. 388 no. 0245.

318

Concerning the trial at the Düsseldorf Regional Court of the Treblinka guards refer to the judgement dated September 3, 1965 (Düsseldorf Regional Court file reference 81 Ks 2/64).

319

Stangl was arrested by the Political Police because it was responsible for the registration and surveillance of foreigners.

320

Daniel Stahl, "Nazi-Jagd: Südamerikas Diktaturen und die Ahndung von NS-Verbrechen" [Nazi-hunt: South America's dictatorships and the punishment of Nazi crimes], Göttingen 2013, pp. 196-208; Felipe Cittolin Abal, "Nazistas no Brasil e extradição: Os pedidos de extradição de Franz Stangl e Gustav Wagner em uma análise historico-juridica", Curitiba 2014, pp. 80ff. Refer also to the documentation by the Simon Wiesenthal Archive in Vienna: [http://www.simon-wiesenthal-archiv.at/02\\_dokuzentrum/02\\_faelle/e02\\_stangl.html](http://www.simon-wiesenthal-archiv.at/02_dokuzentrum/02_faelle/e02_stangl.html) (accessed July 16, 2017).

321

"Der Spiegel" 28/1967, p. 30.

the German and Austrian courts.<sup>318</sup> The inaction of the Austrian consulates in the hunt for war criminals was not a unique national characteristic however: The West German intelligence service, the BND, had been informed of Eichmann's whereabouts by 1958 at the latest, and had kept the information from the Federal Prosecutor General and the prosecutors' offices of the German federal states.

Stangl was arrested by the Political Police in front of his house on February 28, 1967, thanks to the untiring efforts of 'Nazi-hunter' Simon Wiesenthal.<sup>319</sup> A former Gestapo officer had told Wiesenthal in February 1964 that Stangl was in Brazil. As the Austrian courts were being sluggish in dealing with the Stangl case, in the Summer of 1966 Wiesenthal turned to Brazilian senator Aarao Steinbruch in order to initiate cooperation between the Brazilian state prosecutor's office and the Austrian Justice Ministry.<sup>320</sup> With the aid of an acquaintance in the Brazilian police, Steinbruch discovered in early January 1967 that Stangl worked at VW do Brasil.

The Personnel department of VW do Brasil was completely surprised by Stangl's arrest. Chairman Schultz-Wenk reacted to the news not with shock, but with relief, because the Brazilian press – as opposed to "Spiegel" magazine – made no mention of Stangl's employers, so VW do Brasil's reputation remained undamaged.<sup>321</sup> The Personnel department cannot be accused of intentionally adopting a not-wanting-to-know attitude. Although the German press had reported in detail on the Treblinka trial of his former subordinates in 1964 and 1965, Stangl's name was not mentioned.

Schultz-Wenk justified his inaction to the VW AG Legal Affairs department with an excuse that was not untypical at the time: "Since the company's founding, the positions of VW do Brasil's personnel director and his deputy have been held by two German-Jewish immigrants. It was therefore those two gentlemen who recruited Mr. Stangl." According to this skewed logic on the part of the former Nazi party member Schultz-Wenk, two representatives of the persecuted and murdered Jewish people were responsible for Stangl's recruitment.

Schultz-Wenk's accusation is countered by the fact that Stangl was initially employed only as a mechanic, and senior Personnel department managers would certainly not have had anything to do with the recruitment of an ordinary worker. VW do Brasil liked to employ German-speaking immigrants and Brazil-born German-Brazilians because of their reputation as loyal and reliable employees, and because they spoke German, so Stangl's recruitment was a matter of routine. The personnel files of earlier employees do not contain any details which indicate close questioning of their prior careers. Everything points to the fact that Stangl

concealed his prior career as a police officer so as not to arouse a hint of suspicion. Schultz-Wenk's justification was in response to a query – no written record of which survives – from the Legal Affairs department in Wolfsburg, who were concerned about negative reporting in Israel.<sup>322</sup> According to a report in the Israeli daily newspaper “Maariv” on March 15, 1967, VW do Brasil had provided Stangl with a top attorney, and had a positive attitude to the recruitment of former Nazis. In fact, VW do Brasil no longer concerned itself with Stangl after his arrest, so that suspicion was groundless.

The courts of three countries were attempting to extradite Stangl in order to put him on trial: Poland, Austria and West Germany. As Stangl was threatened with the death penalty in Poland, and the state prosecutor's office at the Düsseldorf Regional Court was well advanced in its investigations thanks to the 1964/65 Treblinka trial, in June 1967 the Brazilian government approved his extradition to Germany. On December 22, 1970, after a seven-month trial, the Düsseldorf Regional Court sentenced him to life imprisonment.<sup>323</sup> He died of a heart attack on June 28, 1971 in Düsseldorf prison.

A range of evidence points to a persistent culture of forgetting, covering-up and not wanting to know at Volkswagen AG. As one example, in 1952 VW AG employed the long-standing deputy Gauleiter (Nazi party leader) of the Bayerische Ostmark region in Bavaria, Ludwig Ruckdeschel, as a host looking after prominent guests.<sup>324</sup> Ruckdeschel (1907-1986) had ordered two citizens of Regensburg to be summarily executed in April 1945 because they had pleaded for a peaceful handover of the city to the US Army. He was prosecuted for the offence, serving a term in prison between 1947 and 1952. In view of Ruckdeschel's criminal record, and his barely concealable past career as a Nazi functionary, his was a blatant case of looking the other way.

322

This was indicated by a letter from the Israeli VW importer Champion Motors Ltd. dated March 15, 1967, which sent the VW AG Export department a translation of a lengthy report in the Israeli daily newspaper “Maariv” on Stangl's arrest, in: UVW, 1053/105/1.

323

Concerning Stangl's trial see “Der Spiegel” 20/1970, pp. 81-84 and 53/1970, p. 42.

324

Brigitte Hamann, “Winifred Wagner oder Hitlers Bayreuth” [Winifred Wagner: A Life at the Heart of Hitler's Bayreuth], Munich 2002, p. 593.



# 12. Results

VW decided to build a plant in Brazil in 1956, under pressure from Brazil's protectionism. In view of the major potential for growth on the Brazilian market, the decision proved to be a happy one for the entire Group. Within just a few years, VW do Brasil became the market leader in the Brazilian auto sector.

The management of VW do Brasil was not involved in the removal of the last democratically legitimate government and the coming to power of the military dictatorship in 1964, and did not provide the coup organisers with any financial support. It adjudged the military coup of 1964 and the establishment of an increasingly repressive military dictatorship to be an unambiguously positive development, as it expected more stable – and above all pro-business – policies to result. Although the management board of VW AG was aware of the political and social repression in the military dictatorship thanks to the credible reporting on it by German media, it accepted and trivialised the situation as being inevitable, based on a colonialist perspective. No clear evidence has been found to support the conjecture that VW do Brasil provided material assistance to the operation of a torture centre by the military (DOI-CODI). It is possible that an indirect financial contribution was made through the company's membership dues paid to the industrial confederation FIESP, and by the provision of vehicles free of charge.

Thanks to the high growth rates of the Brazilian economy, the positive expectations as to the development of VW do Brasil were not disappointed, indeed were even surpassed, until the first oil price crisis hit in 1974. The high domestic demand for cars and the strong competitive position enjoyed by VW do Brasil enabled it to generate extraordinarily high profits, which meant it was able to self-finance all its capital investments and make substantial transfers of earnings back to its parent company. Government wage controls and restrictions on trade unions kept pay levels lower than they would have been in a pluralistic democracy with freedom of pay bargaining and the right to strike. VW do Brasil, and ultimately also VW AG, profited from the suppression of fundamental workers' rights.

The management of VW do Brasil exhibited unreserved loyalty towards the military government, and shared its economic and domestic policy goals. Correspondence with the management board in Wolfsburg through to 1979 reveals unreserved approval of the military government, which did not stop short of personal assurances of loyalty. In 1969 the Works Security department began a collaboration with the regime's Political Police (DEOPS) which only ended in 1979. The prime driver of that collaboration was the head of Works Security, Ademar Rudge, who felt a particularly close allegiance to the regime's security organs as a result of his earlier position as a Brazilian Army staff officer. He acted in his role on his own

initiative, but with the tacit knowledge of the management board. As there was no legal duty to report expressions of opposition views, in carrying out surveillance of opposition activities among the workforce and denouncing activists the leadership of the Works Security department acted on its own authority and out of a sense of self-evident loyalty to the military regime. Although the role played by Works Security in identifying and arresting an illegal Communist grouping cannot be precisely determined, if it had not collaborated the arrests might well have been at least delayed, and possibly prevented.

Works Security monitored opposition activities by the company's employees, and by its conduct aided the arrest of at least seven members of staff. This happened at a time when the use of torture by the Political Police was already common knowledge among the Brazilian and German public. According to the statement by the imprisoned worker Lucio Bellentani, Works Security allowed him to be not only arrested but also mistreated by the Political Police on the plant premises. Voluntary collaboration with the regular policing organs of the dictatorship (Polícia Militar) persisted until the first large-scale strike of 1979. However, the gradual transition back to the rule of law at that time meant that it did not have any negative consequences for the workers concerned. Nevertheless, VW do Brasil was still dismissing employees because of their trade union activities until 1980. The exchange of 'blacklists' of politically troublesome workers with other companies is proven by documentary evidence.

The suspicion expressed by the National Truth Commission that VW do Brasil had employed the former concentration camp commandant Franz Stangl despite knowing about his crimes proved to be false. VW do Brasil recruited him to carry out maintenance work without knowing anything of his former life, and only found out about his war crimes following his arrest.

Up until 1978, the management board of VW AG received little information concerning the development of relations between VW do Brasil and its employees, or about trends in pay rates. In view of the high wages paid in the auto industry by Brazilian standards, the lack of interest in the material situation of the employees and their working conditions was explicable. The Group's executive bodies – the management board and the supervisory board – only began to take an interest in those issues in 1979, when a 15-day strike brought to light the labour conflicts and deficiencies in industrial relations at VW do Brasil. It was only the de facto restoration of the right to strike which demonstrated that authoritarian paternalism could no longer motivate and restrain the VW do Brasil workforce. Chairman of the management board Toni Schmücker initially responded in a

placatory manner to the demand of the Brazilian metalworkers' union that the Group management board should intervene, though he did take the reports of social and legal grievances seriously.

From 1979 onwards, the management board of VW AG, aided by the diplomatic skills of personnel director Karl-Heinz Briam and of General Works Council chairman Siegfried Ehlers, initiated a change in the corporate culture at VW do Brasil. The management's social learning process initially met resistance and objections on the part of VW do Brasil chairman Wolfgang Sauer. Although the first Works Council of VW do Brasil elected in October 1980 was not comparable to a Works Council constituted in accordance with the German Works Constitution Act either in terms of the election procedure or the body's competencies, in the early 1980s VW do Brasil became a ground-breaker in terms of industrial democracy in Brazil. The cultural transformation began in the midst of a severe economic crisis which resulted in a 40% decline in unit sales and nullified any financial flexibility to provide appropriate levels of pay to the company's employees. The gradually emerging willingness of the management board to negotiate with the union in 1981, at the high-point of the crisis, enabled a reduction in the originally planned number of mass redundancies and the instigation of a participatory corporate culture. From 1982 onwards, the Works Council of VW do Brasil was elected by a procedure which no longer placed union members at a disadvantage.

Based on current knowledge, the transformation of savannah forest into pasture land on the VW fazenda in the Brazilian state of Pará was a serious ecological error which ultimately only brought VW financial losses. VW do Brasil indirectly shared a substantial portion of the responsibility for the exploitation of itinerant workers engaged on clearing operations. The fazenda's management engaged exploitative employment agents with the knowledge and approval of the VW do Brasil management board. In doing so, it violated fundamental social standards, instead of employing the workers itself on acceptable terms.







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