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March 16, 1965

MEMORANDUM FOR MR. BUNDY

SUBJECT: Attached Telegram from Lincoln Gordon on Eximbank Loan

When the Eximbank agreed recently to "roll-over" Brazil's debts to the Bank, Exim also agreed to provide \$30 million in new loans. The railroad loan, which Gordon wants the Bank to make, would take the whole \$30 million and it would be just a first tranche on an undetermined amount. Eximbank wants to put the \$30 million into projects which will earn foreign exchange for Brazil.

Eximbank is worried about its "exposure" in Brazil -- now about \$750 million. It does not regard the railroad project as bankable and, as a practical matter, does not believe Brazil can pay on regular Eximbank terms -- 10 to 15 year credit at 5-1/2%. If pressed, Eximbank regards the railroad project as one for AID, i. e., low interest and long pay out.

State's reaction is not to press Eximbank on foreign policy grounds. It is not certain it would be bad economics for Brazil to unload surplus coffee for railroad locomotives and doubts that East Germany or other Soviet bloc countries would reap a political advantage. It is not clear that the deal will go through anyway. In order to avoid direct Brazil-East Germany trade ties, however, State is toying with the idea of trying to interest the West Germans or British.

Commerce wants Eximbank to finance the sale, but it is not clear that General Electric is willing to bear its share of the risk.

I do not think there is anything for us to do, but I did think you should be aware of the problem.

OK

RMS

Robert M. Sayre

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INCOMING TELEGRAM *Department of State*

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Action PP RUEHCR
SS IE RUESUA 299 12/1905Z
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Info FM AMEMBASSY RIODEJANEIRO
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- THOMSON

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PERSONAL FROM AMBASSADOR FOR SECRETARY CONNOR, BELL, MANN, VAUGHN, AND LINDER

1. I WANT TO CALL YOUR PERSONAL ATTENTION TO DEPTTEL 1220 REPLYING TOAID 1677 ON SUBJECT LOCOMOTIVE REQUIREMENTS SAO PAULO STATE RAILWAYS. THIS CASE IS CLEAR EXAMPLE WHERE RELUCTANCE EXIMBANK CONSIDER FINANCING RUNS CONTRARY US NATIONAL INTERESTS AND PROGRAMS TO PROMOTE EXPORTS AND DISCOURAGE TRADE WITH SINO-SOVIET BLOC BY COUNTRIES SUCH AS BRAZIL. I BELIEVE IT WARRANTS REVIEW AT HIGH POLICY LEVEL.
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2. EXIM RESPONSE MAY BE SOUND FROM PURELY BANKING VIEWPOINT BUT IT IGNORES FACT THAT OVER NEXT FEW YEARS BRAZIL WILL HAVE TO IMPORT MANY, MANY MILLIONS OF DOLLARS WORTH OF LOCOMOTIVES, RAILS AND OTHER RAILWAY REQUIREMENTS. A MAJOR ISSUE WE FACE NOW IS WHETHER US SUPPLIERS AND THE US GOVERNMENT WILL BE COMPETITIVE OR WILL ALLOW THIS TRADE TO GO BY DEFAULT TO EAST GERMANY AND OTHER COMMUNIST BLOC COUNTRIES. UNDER EXPORT PROMOTION PROGRAM WE SPEND MANY MANHOURS SEEKING SALES IN THE THOUSANDS OF DOLLARS, WHEREAS DECISION THIS CASE MAY DETERMINE SOURCE OF SUPPLY OVER MANY YEARS OF EQUIPMENT AMOUNTING TO MANY TENS OF MILLIONS.

3. I MOST STRONGLY URGE RECONSIDERATION EXIM POSITION AND APPROVAL ONE OF ALTERNATIVE MEANS OFFER FINANCING RECOMMENDED PARA 6 TOAID 1677. WHILE WE DO NOT DISAGREE WITH EXIM APPRISAL MANAGEMENT AND CONDITIONS BRAZILIAN RAILWAYS, THIS IS OPPORTUNITY TO INFLUENCE IMPROVEMENT AND PRESERVE PLACE IN MARKET FOR US FIRMS INSTEAD OF FORCING BRAZIL TO RELY ON IRON CURTAIN SOURCES. MOREOVER, WHOLE DRIVE PRESENT GOVERNMENT IS TOWARD SOUND ADMINISTRATION IN RAILWAY AS IN OTHER SECTORS AND GOB GUARANTEES WOULD SAFEGUARD EXIM AGAINST ANY SEPCIAL RISKS WHICH RAILWAY SECTOR MIGHT INVOLVE. GORDON

BT
NOTE: HANDLED LIMDIS PER SS-O
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