

TELEGRAM

Foreign Service of the
United States of America

INCOMING Amembassy Brasilia

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INFO:

Recd: July 29, 1964
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FROM: AMEMBASSY RIO

NO: 17, July 29, 11 AM

ACTION IMMEDIATE DEPT 241 INFO BRASILIA 17 SAO PAULO 14

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For delievery B ton office Brazilian affairs 830 AM Wednesday.

AMFORP

1. Amforp representatives visited Embassy Tuesday to report Marcondes Ferraz, following talks with President Castello Branco and cabinet members and further consultation with interministerial committee, had stipulated following new conditions: (A) payment for items accrued since January 1, 1963 to be lowered from \$10 million to \$6.9 million largely as result increase in depreciation allowance, (B) this amount to be paid over 10 years instead of 5 years as previously agreed, and (C) contract would not be presented to congress for approval.

2. Edwin Ford, Amforp legal counsel, arriving US Wednesday morning to convey news this development to Sargent and Nydorf prior their visit to Department same day to discuss status of negotiations.

3. Accompanied by Elwood, I met with Campos, Milhoes, Ferra, Benedito Dutra and majority of members interministerial committee at 10PM Tuesday. After my exposition of history of recent negotiations and explanation my concern as possible reactions in US to latest developments, discussion centered exclusively on how best to justify payment of \$10 million, and there was no further effort to reduce it. It was agreed to abandon justification based on list of current items, which was felt to be exposed to too many political objections. Justification to be based instead along following lines: change in date of purchase means \$13.3 million due AMFORP as interest under original agreement; however, during negotiations Amforp accepted a reduction to \$10 million (equivalent to 43/4% interest on \$142.7 million), agreed extend grace period to July 1967, and also defined reinvestment obligation in terms favorable to Petrobras.

4. GOB side pleaded for extension payment term for \$10 million to 10 years on grounds 15 year payment term on current items accrued December 31, 1962 would make payment over 5 years difficult

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justify. We hope Amforp will accept these new terms in interest facilitating congressional approval here.

5. Contract as such will not be subject to congressional approval as this would set bad precedent for GOB which holds that only treaties and military agreements require ratification. However, congressional approval is necessary for treasury guarantee (as in case IBRD loans) and GOB in asking this approval will be securing implicit congressional ratification of contract terms. We believe this will have political effect desired by AMforp.

6. If these terms agreed, GOB will complete rapidly preparation of contract and documentation for presidential message to congress defending terms. We agree that contract signature and transmittal of message to congress should take place same day so as to give GOB publicity initiative.

GORDON

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