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ACTION: Amembassy LONDON PRIORITY 5270
 " " BONN " 2289
 " " PARIS " 4196
 " " ROME " 1971
 " " TOKYO " 2148

RPT INFO: Amembassy PARIS FOR LEDDY TOCED PRIORITY
 " " RIO DE JANEIRO 1115 "
 " " BRUSSELS (BY POUCH) "
 " " THE HAGUE " " "
 " " STOCKHOLM " " "
 " " BERN " " Authority State 8-10-76
 " " OTTAWA " " By RA, NARS, Date 9-14-76

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Ref: CEDTO 866 to Dept (rptd separately)

Subject: Brazilian Debt Negotiations

1. Reftel describes Kristensen Feb 18 meeting with representatives six OECD governments/who are principal official creditors of Brazil. Now that subject broached by GOB to other governments, five action addressees requested convey orally below substance paras 2-10/for information of appropriate officials in governments who likely be involved in giving instructions to their reps who attended Feb 18 meeting, and report back their views.

2. US

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 Telegraphic transmission and classification approved by: ARA:AMSolomon as
 Clearances: BR - Mr. Burton R.D. RPE - Mr. Smith 7/4 P Treasury - Mr. Costanza
 OFE - Mr. Caplany 1/1 EA/J - Mr. Ainsworth 1/1 Eximbank - Mr. Oakes 1/1

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2. US approach to debt problem is based on general important
and financial
foreign policy/considerations. Primarily because of poor economic
policies of recent years, Brazil faces a burden of debt which is
greater than it can possibly service. There is serious question
whether payments due official creditors (let alone many private
creditors who already in arrears category) can be met in March and
April. At same time, mounting pressures for a defiant, unilateral
statement of debt moratorium have come from the extreme left of
Brazilian politics. If this group were able to precipitate such a
moratorium, this would probably be accompanied by ~~xi~~ successes in
other of their extremist, ultra-nationalist aims. Accordingly, US
has concluded it is in our interest to provide Goulart Administration
with a limited amount of foreign debt relief (covering remaining two
years in office) to avoid a declaration of unilateral moratorium and
to maintain relations with Free World on an orderly basis.

3. US assumes other/interested (and Japan)/OECD members/will agree that an orderly use
of future Brazilian exchange earnings to meet part of its maturing
debt can best be achieved through a negotiated rescheduling of a
multilateral character. Brazilians have taken position that official
approach should be made to OECD and probably have hoped that
negotiating forum could continue to be OECD itself rather than some

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other group. Re concern expressed by several Europeans in Feb 18 and earlier meetings, US has no preference for any particular multi-lateral forum and would be ready to proceed to negotiations in Paris Club (or similar group) enlarged to include US and Japan. Because international financial agencies are also important creditors, would appear reasonable for Paris Club-type group to make provision for some form of participation by IMF, ~~and IBRD~~ IBRD and ~~possibly~~ IDB.

4. As general principle, burden of satisfying part or all of Brazilian request should be spread equitably among all creditors-- international agencies, governments and various types of private creditors. (Would not wish any IDB settlement to be on more favorable terms to Brazil than IBRD.)

5. Under present Brazilian leadership there is little chance of obtaining meaningful commitments (as part of debt negotiations) to improve internal economic policies during next two years. For this reason, US agrees with German view that Paris Club-type group should not be considered as group being formed to consider stabilization assistance or as development consortium for Brazil. For similar reasons, US agrees with German position of opposition to any Brazilian proposals to reschedule commercial credit payments on any terms which would look like a 20-year development loan.

6. While

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6. While US extremely dubious of chances of obtaining significant internal financial reforms, do believe that--at an appropriate stage in negotiations--it would be reasonable for official in cooperation with participating creditors, creditors to seek certain external financial policy commitments/aimed at limiting further deterioration in Brazil's long run foreign exchange and debt position.

7. Interest payments should not be subject to rescheduling.

8. General settlement should include an adjustment feature under which an agreed portion of any increase in exchange receipts related to rise in coffee price would be allocated to an acceleration in negotiated rate of debt liquidation.

9. Goulart's letter to OECD will request debt relief of \$350-400 million during two years 1964-65. Expect IMF report will provide indication regarding Brazil's foreign exchange prospects. Pending receipt of Brazilian proposals and IMF report, US considers it premature to attempt to be specific re such issues as percentages of debt to be rescheduled or repayment terms on rescheduled amounts.

10. Re timing next steps, highly desirable that Kristensen be authorized make prompt encouraging reply to Goulart letter. IMF Consultations Mission now in Brazil with objective completing report

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to be issued to IMF Board by March 15-20. US agrees with European view that negotiations cannot be concluded until report is received and analyzed by interested governments. However, because of Brazilian domestic political factors discussed para 2, US hopes ~~xxxxxx@xxxxxxx~~ group could begin meetings early and prior to IMF report. As one possibility, initial meeting could include presentation by Brazilian officials of their problem and proposals, and meeting could establish arrangements for future negotiating session to take place after analysis IMF Report.

11. FYI From US standpoint, one of most difficult negotiating issues will be treatment of US private creditors. Contrary arrangements made in previous Brazilian debt negotiations, USG does not intend "bail-out" private creditors. Because of complexities of problem, action addressees should refrain from any elaboration point implicit in para 4. However, all addressees should be aware that agreed US position paper contains following: US should suggest to Brazilian Govt that it take initiative in approaching private creditors about same time as official approach is made to governments and international agencies, and that negotiations with private creditors should proceed about same time as negotiations with official agencies. As occasion requires, USG would explain to US private creditors that it

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is unable to provide financial assistance for their relief, but would also explain our evaluation of alternatives facing all creditors and discreetly encourage US private creditors to seek satisfactory agreement with Brazilians. While US would be prepared to facilitate negotiations between Brazil and private US creditors, US would not expect be directly involved those negotiations nor would it expect private creditors to be involved in governmental negotiations. In our various discussions and negotiations with Brazilians and ~~European~~ ^{creditor} governments, we would take position that Brazilians should offer to reach agreement with private creditors on terms which were no less favorable than those which might be agreed with governments.

12. Embassy Rio has just informed Department that Goulart delivered speech February 19 announcing exchange reform and stating he could "affirm to the nation that the expressions of agreement and support already received from countries which are our major creditors enable me to announce that in the next days the bases for the rescheduling of the external debt of Brazil will be definitively arranged in the terms proposed by my government".

This public Brazilian statement prior receipt reply letter from
OECD unfortunate development, which we hope will not adversely affect
attitudes

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attitudes other creditors.

In response reply to inquiry from local press regarding US attitude, Ambassador Gordon made following statement: "United States as one of interested creditor countries is participating in discussions mentioned by President Goulart, which are taking place in Europe. In line with ~~past~~ policy enunciated in letter which President Johnson sent to President Goulart last December, United States Government is favorable to Brazilian initiative of holding multilateral negotiations with creditors on questions of foreign indebtedness and is prepared to participate in such negotiations."

END FYI

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